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AFFORDABLE HOUSING ACT OF 1989

HEARING

BEFORE THE

SUBCOMMITTEE ON
HOUSING AND URBAN AFFAIRS

OF THE

COMMITTEE ON
BANKING, HOUSING, AND URBAN AFFAIRS
UNITED STATES SENATE

ONE HUNDRED FIRST CONGRESS

FIRST SESSION

ON

THE DISINVESTMENT IN HOUSING IN THE UNITED STATES BY THE FEDERAL GOVERNMENT

JULY 10, 1989—BOSTON, MA

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AFFORDABLE HOUSING ACT OF 1989

MONDAY, JULY 10, 1989

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS,
Boston, MA.

The subcommittee met at 9:07 a.m., in the auditorium, University of Massachusetts Boston campus, Stewart and Arlington Streets, Senator John F. Kerry (chairman of the subcommittee) presiding.

Present: Senator Kerry, Representative Kennedy, and Mayor Raymond L. Flynn of Boston.

OPENING STATEMENT OF SENATOR KERRY

Senator KERRY. The hearing will come to order. Ladies and gentlemen, I am delighted to welcome you to this formal hearing of the Subcommittee on Housing and Urban Affairs of the Banking, Housing, and Urban Affairs Committee of the United States Senate.

And I am delighted to be joined here on the dais by Mayor Flynn as a guest of the committee. He has participated in the roundtable hearings before the full committee in Washington. Congressman Kennedy will also be joining us as a Member of the House Committee.

And we look forward today to a very important hearing on the subject of housing, and particularly, the Affordable Housing Act of 1989, which I am a principal cosponsor of.

Why are we here? What's the purpose of this? Is this just another hearing, or are we really going to try to accomplish something broader and more significant? It's my hope that we're going to do the latter.

The United States Congress is poised to deal with the question of housing this year. We have a very important piece of legislation before us, and we have a chance to reverse what has been an 8-year trend in the disinvestment in housing in the United States, at least by the Federal Government.

And there are several reasons why I wanted to have a field hearing here in Boston. Number one, we wanted to hear from people who are the real practitioners of the effort to build housing. And we wanted to hear from the people who live in the housing or are trying to live in the housing and have faced first-hand difficulties in trying to do so.

Second, I thought it was particularly appropriate to be here in Boston because Massachusetts and Boston have been singularly successful in promoting housing in the absence of the Federal involvement. Each time the Federal Government has pulled back,

creative people have moved in to fill the void, whether through a non-profit effort or through creative financing mechanisms which have leveraged private/public partnership in a way that has allowed us to continue to meet what is a critical need.

How critical is that need? Well, we are going to be joined this morning by Bill Apgar, who is an Associate Professor at Harvard who has helped put together the Joint Center for Housing Studies Report that just recently was released. That report underscored the inability of renter households to raise enough cash to make a down payment and close on a home. And that is the primary reason that homeownership rates continue to decline for young households.

The homeownership rate for households in the 25 to 29 year age group fell to 36.2 percent in 1988, which was down sharply from 43 percent in 1980. For households in the 30 to 34 year age range, the rate fell to 52.6 percent in 1988, which is off ten percentage points from the 1976 rate of 62 percent. So homeownership is a problem.

In addition to the homeownership first time home buyer problem, some people are paying 50 percent of their income to pay rent. And we have had a tremendous gap growing between the availability of affordable rental housing, as well as first time homeowner opportunities. So much so that, for the first time since the 1940's, when the United States picked up the—and passed a law and promised Americans the right for decent and affordable housing—for the first time since then, we are now facing a reversal in the effort of government to provide that promise. And we are facing a growing crisis.

For a Mayor like Ray Flynn, that is an invitation to a serious subset of problems that have to do with the entire social fabric of a community like Boston. And for mayors and others all across our State, it is a very, very serious problem.

So we have legislation which will not cure it, but will certainly begin us conceivably on the road to a remedy. And I do not want to prolong my opening comments. The purpose of being here today is to try to minimize speeches and maximize dialogue.

The format will be as follows. We will hear from three individuals, each of whom has a story to tell with respect to their effort to participate in the housing dream of this country. And then we will form a more intimate kind of dialogue with our experts, ranging from bankers to Massachusetts Housing Financing Agency Amy Anthony and others, all of whom I think will have a tremendous amount to lend to this dialogue.

What we want to do is examine the housing act, the Affordability Act of 1989. We want to look at what has worked in Massachusetts. We want to look at what can work that we haven't tried. And we want to examine what the Federal Government's role ought to be in best enabling the State and the local communities to be able to respond to this housing crisis.

We have been joined, as I said we would be, by Congressman Kennedy, who has been diligent in his pursuit of housing policy on the House side. I should say—and I mean this—that he has really put enormous energy into this subject. He has mastered it and understands it better than many of my colleagues in the Senate. And I am delighted that he will be a working partner on the House side in our effort to try to guarantee a decent housing policy for this

country. Joe, we're delighted to have you here. We'd welcome any opening comments that you might have.

OPENING STATEMENT OF REPRESENTATIVE KENNEDY

Representative KENNEDY. Thank you very much, Senator Kerry. And thank you for holding this hearing this morning. I think it's a tremendously important step to move forward, when both the House and the Senate are looking at new legislation this year, to have the input of so many of the people from our home State that in constant ways have demonstrated real leadership on the whole housing issue and have, I think more than any other State, come down before at least a House side senator to testify about some of the innovative and creative approaches that have been demonstrated. From Mayor Flynn's efforts here in the city to many of the efforts that have been made by State officials and others like Marv Siflinger and others who have participated on the financing end.

I think that at a time when the Federal housing budget has been slashed by nearly 70 percent, and with the number of affordable housing units being produced with Federal assistance has been cut from over 300,000 units back in 1979 to just 11,000 in 1988—when the administration has tried to cut and eliminate virtually every housing program that works—it's really encouraging for all of us to see the strong commitment that you, John Kerry, have made to the renewed Federal role in providing for affordable housing.

When we return to Washington later today, we will take up the final consideration on the savings and loan bail-out bill in the House/Senate Conference Committee. That bill is going to cost about $335 billion over the next 30 years. Yet, the Senate version of that bill does nothing to fight the discrimination and red-lining in the home mortgage lending practices of our Nation's institutions.

From Atlanta to Detroit, the savings and loans have been caught red-handed at redlining poor and minority neighborhoods. As Jesse Jackson has said, we have to greenline those neighborhoods and get housing and business credits flowing to the neighborhoods that need it most.

A national study showed that a black family is three times more likely to be denied a home mortgage than a white family living in the same neighborhood with the same kinds of income. That's just unacceptable in our country today.

Two weeks ago on the House floor, we passed an amendment to the savings and loan bail-out bill that will expose discrimination and redlining wherever it exists. To date, the Senate has no comparable protection against discrimination. If we're going to pump hundreds of billions of dollars into an industry that's supposed to finance home mortgages and home ownership, then the least we can do is expect them to make every family—black, white or brown—have fair and equal access to credit.

It seems to me that—in the same committee in the House of Representatives and a committee that has overseen the reduction in housing subsidies from over $30 billion in 1979 to just some $11 billion this past year. In that same committee, we couldn't ever find a half a billion dollars to provide affordable housing for low-income

tenants. But somehow, we're able to find $335 billion to bail out our Nation's savings and loans. It seems to me that, at a bare minimum, we ought to expect that that money doesn't go to continued processes that have allowed discrimination to exist.

The plain fact is that today many millions of young Americans are also being denied opportunity to own their home. As Bill Apgar has reported just a few weeks ago, only 11.5 percent of today's renter households have the resources that they would need to buy a starter home. That leaves nearly 10 million American families locked out of the home ownership opportunities permanently.

In our society, a home is the biggest investment that people can make. It's a tool for savings and an effort to spur economic growth. Yet, home ownership rates among younger people have fallen off dramatically in the last decade. Amongst families in their late twenties, home ownership has fallen from 43 percent in 1980 to just 36 percent today.

Only one group has gained from the housing policies of the Reagan era—the fat cat Washington consultants who built huge fees out of the Federal housing programs. When Jim Watt can make $300,000 off of Federal housing development; when former high officials at HUD can turn around and get quick access to funds for projects that they own from their own former colleagues; when HUD Inspector General documents $413 in potential rent subsidy overpayments to developers with HUD connections, something is very wrong with Federal housing policy.

While people go homeless, Republican fundraisers and former housing officials grow rich off the Federal housing programs. We have to put an end to the HUD scam and get housing funds to the people who need the money and who need the housing.

There is a better way to provide housing. To move a step closer to the goal of a decent home for every American that was established so long ago in the Federal Housing Act of 1949. In many cities and towns across our Nation, growing numbers of non-profit housing developers have shouldered part of the task of providing affordable housing. Unions and church groups, synagogues and community development corporations have all sponsored small-scale affordable housing developments.

A little over a year ago, my friend Ray Flynn and I teamed up to establish a Community Housing Partnership Act to build on the successes of non-profit housing developers. The bill allocates over $500 million in matching funds for specific housing projects.

With the non-profit sponsorship, costs of affordable housing are reduced in several ways. First, the speculative profits of developers are eliminated. For profit builders, contractors, engineers and architects and consultants may be paid a fair price for their services which they provide, but no one will get a windfall from the real estate speculation.

Second, Federal dollars are leveraged by State, local and private contributions in a ratio of over three to one. Third, the housing is kept affordable in perpetuity so we will not face the crisis of reversions to the speculative sector in the future. Finally, the housing is paid for up front to reduce the financing costs that drive rents up over the long run.

Just as important as creating new affordable housing is preserving the units since Federal subsidy is being threatened by owners who want to prepay their mortgages and sell out to condominiums. Nearly 400,000 units are eligible for prepayment, 17,000 in the State of Massachusetts alone. If those owners prepay, then they will be lost forever.

Two years ago I proposed a series of amendments that were passed by the House that would give tenants the chance to buy out these properties themselves. The Senate opted for an effective moratorium instead. That moratorium expires next February, but it's a good backstop so we can work towards a more permanent solution.

For all the talk about tax breaks and subsidies, owners have already done very well on these properties. And we ought not to allow the current owners to reap a speculative windfall at the expense of low-income tenants.

We are currently working on a substitute plan to give project owners a series of reasonable incentives to sell their properties to non-profit organizations that promise to keep their units affordable in perpetuity. I'm looking forward to Ray Flynn's comments this morning to see if he can generate some new ideas that I think we can push in Washington.

Some time ago, I discussed many incentives with Secretary Kemp. We agreed that the best way to preserve units is to encourage their sale to non-profits through the capital gains tax incentives, through discounted prepayments of low-income mortgages, and through renter subsidies to the existing tenants. Such incentives would be available only to those who agreed to sell to non-profit organizations.

For the rest, I believe the moratorium should stay in place. It's just not fair to ask thousands of families to give up their homes because of a loophole in the Federal law. Tenants need and deserve the protection of the Federal Government. We are working closely with Secretary Kemp and Chairman Gonzales of the Housing Committee to create the tax and regulatory incentives necessary to save expiring used properties.

Senator, you have lined up an extraordinary group of witnesses here this morning. We can learn a great deal from their experiences here in Boston and throughout the State, where they have been leading the fight for affordable housing. I look forward to their testimony, to Ray Flynn's testimony, and to the opportunity of hearing from the people of this State. Thank you very much.

[Applause.]

Senator KERRY. Thank you very much, Joe. As Congressman Kennedy has said, Ray Flynn has been a champion of housing efforts. And I know that when he first ran for Mayor, one of his strongest promises to the people of Boston was that he was going to address the housing issue. He has done that, continues to do that, is often a lonely voice in Washington, leading mayors to focus on the urban plight. And recently as I said, he came before our committee to carry his expertise in the housing area to the affordability housing hearings. So I'm delighted to welcome also a good friend, but particularly I think one of the best leaders we've got for all of the urban problems facing this country today—the Mayor of the City of Boston, Ray Flynn.

OPENING STATEMENT OF MAYOR FLYNN

Mayor FLYNN. Thank you very much, Senator Kerry and Congressman Kennedy. On behalf of the people of the City of Boston, let me thank you both for bringing this very, very important hearing to our city. I have to personally say at the outset that I know I speak for mayors around the country as chair of the Mayor's Committee on Housing. I know that they look to Senator Kerry and Congressman Kennedy for the type of leadership on the housing issue. And we can be very proud in Boston and in Massachusetts that we have this type of leadership by our elected officials in Washington. And I do, in fact, very much appreciate that type of interest.

I am going to be particularly brief because of the fact that I think it's very, very important that our Congressional leaders have an opportunity to hear directly from the people because I have many opportunities to work closely with Senator Kerry and Congressman Kennedy and Senator Kennedy as well and our entire Congressional delegation.

Let me say that in Boston and in Massachusetts, we have unique partnerships that I think can in fact be replicated by the national government. As John Kerry has indicated and Joe has indicated, I have had the opportunity at their invitation of testifying before the Congress of the United States on some of the proposals that we have implemented in Boston and the State.

And it really is heartwarming to be able to represent this city in talking about such things as our public/private partnership and our linkage proposal and how we deal with the issue of the homeless and the commitment from the non-profit organizations. As a matter of fact, Joe Kennedy has cosponsored a model program that was initiated here in Boston—the Boston Housing Partnership, whereby we have these unique relationships with organized labor and business and community organizations. And I see several of them here today. Bill Jones, among others, Urban Edge. That kind of partnership that I think is absolutely unique.

Let me say that if we're to win this housing struggle and convince Federal officials in Washington about the critical need for affordable housing, it will have to be done on a grassroots basis. And the people that are here today can tell you about grassroots housing.

While we're working hard with new legislation—that's the one point that I would underscore. While we're working very hard for Federal legislation to build more affordable housing units, I would make one strong pitch here today. And that is, let's protect the existing stock of affordable housing. While we're trying to get new housing on line, let's not let some of that existing stock of housing slip through the cracks.

And I hope that when Senators Cranston and D'Amato, along with our Congressional delegation, ultimately come up with a national housing bill, that there is strong protection for the low and moderate income people who presently live in our affordable units of housing all across our city and our country. And that is absolutely critical.

So Senator Kerry, thank you very much, and Joe Kennedy for bringing this hearing to the City of Boston. The people of the City of Boston can tell a message of how to get things done as effectively as anybody can. What they need at this particular time is for the Federal Government, once again, to become a partner. Once again, for the Federal Government to take an active, meaningful role in helping protect the existing stock of affordable housing and build more units of affordable housing for our country. So to you two great leaders, thank you very much on behalf of the people of this city.

[Applause.]

[The complete prepared statement of Mayor Flynn follows:]

CITY OF BOSTON • MASSACHUSETTS

OFFICE OF THE MAYOR
RAYMOND L. FLYNN

STATEMENT OF BOSTON MAYOR

RAYMOND L. FLYNN

CHAIRMAN OF THE ADVISORY BOARD

UNITED STATES CONFERENCE OF MAYORS

TO THE

U.S. SENATE SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS

BOSTON, MASSACHUSETTS

JULY 10, 1989

IT IS TIME FOR CONGRESS TO FOCUS ON THOSE BASIC ECONOMIC ISSUES WHICH UNITE AMERICANS -- ENDING HOMELESSNESS, EXPANDING THE "AMERICAN DREAM" OF HOMEOWNERSHIP AND BROADENING ECONOMIC OPPORTUNITIES FOR ALL OUR CITIZENS. THESE ARE THE BREAD AND BUTTER ISSUES THAT OUR PEOPLE WANT TO SEE ADDRESSED -- ISSUES THAT HAVE BEEN NEGLECTED BY WASHINGTON DURING THE PAST TEN YEARS.

IF BY THE END OF THIS YEAR, CONGRESS CAN ENACT MEANINGFUL HOUSING LEGISLATION, FULLY FUND THE McKINNEY HOMELESS ACT AND THE ANTI-DRUG ABUSE ACT AND PASS THE ACT FOR BETTER CHILD CARE, WE CAN END THE DECADE OF FEDERAL DISINVESTMENT IN OUR CITIES ON A POSITIVE NOTE AND BEGIN A RENEWED ERA OF CARING AND COMPASSION IN AMERICA.

SENATE BILL 565, THE "NATIONAL AFFORDABLE HOUSING ACT," SPONSORED BY SENATORS ALAN CRANSTON OF CALIFORNIA AND ALPHONSE D'AMATO OF NEW YORK AND COSPONSORED BY SENATORS JOHN KERRY AND TED KENNEDY OF MASSACHUSETTS, IS A MAJOR STEP IN THE RIGHT DIRECTION. AS CHAIRMAN OF THE ADVISORY BOARD OF THE UNITED STATES CONFERENCE OF MAYORS AND AS THE FORMER CHAIRPERSON OF THE NATIONAL LEAGUE OF CITIES HOUSING AND ECONOMIC DEVELOPMENT COMMITTEE, I AM PROUD TO SAY THAT BOTH NATIONAL ORGANIZATIONS APPROVED RESOLUTIONS WHICH I SPONSORED TO ENDORSE THIS LEGISLATION.

AT THE SAME TIME, THERE ARE SEVERAL INITIATIVES THAT SHOULD BE ADDED TO THE BILL WHICH WOULD HELP EXPAND HOMEOWNERSHIP, PRESERVE EXISTING LOW AND MODERATE INCOME HOUSING, AND ADD TO THE AFFORDABLE HOUSING STOCK IN THE MOST COST-EFFECTIVE MANNER. THESE INCLUDE:

1) TAX INCENTIVES FOR OWNERS OF FEDERALLY SUBSIDIZED HOUSING TO SELL THEIR BUILDINGS TO TENANTS OR TO COMMUNITY-BASED ORGANIZATIONS REPRESENTING TENANTS.

   WE NEED EFFECTIVE NATIONAL LEGISLATION TO DEFUSE THE "TICKING TIME BOMB" OF EXPIRING FEDERAL HOUSING ASSISTANCE. ONE STRATEGY TO DO THIS WOULD BE THROUGH A CAPITAL GAINS REDUCTION FOR OWNERS, WITH A CERTAIN PERCENTAGE OF THAT INCENTIVE TARGETED AS THE TENANTS' EQUITY CONTRIBUTION. THESE UNITS COULD BE PRESERVED EITHER AS AFFORDABLE RENTAL HOUSING OR AS COOPERATIVE HOUSING. IN CALIFORNIA, THE STATE HAS ENACTED LEGISLATION PROVIDING THIS TYPE OF INCENTIVE. A FEDERAL INCENTIVE WOULD BE OF BENEFIT TO TENANTS NATIONALLY AND WOULD BE PARTICULARLY HELPFUL IN OUR STATE, WHERE HOUSING VALUES HAVE SKYROCKETED SINCE THE INITIAL CONSTRUCTION OF THESE UNITS.

2) THE COMMUNITY HOUSING PARTNERSHIP ACT, INTRODUCED BY CONGRESSMAN JOE KENNEDY IN THE HOUSE AND BY SENATOR FRANK LAUTENBERG IN THE SENATE.

IN BOSTON, WE HAVE SEEN THE TREMENDOUS WORK THAT HAS BEEN DONE BY THE BOSTON HOUSING PARTNERSHIP, BY LABOR UNIONS, BY COMMUNITY DEVELOPMENT CORPORATIONS, BY NEIGHBORHOOD HOUSING SERVICES AND BY RELIGIOUS ORGANIZATIONS TO BUILD AFFORDABLE HOUSING. THE COMMUNITY HOUSING PARTNERSHIP ACT SUPPORTS THESE SUCCESSFUL LOCAL MODELS BY BRINGING IN THE FEDERAL GOVERNMENT AS A PARTNER. IN THIS WAY, THESE GROUPS CAN DO MORE OF WHAT THEY ALREADY DO WELL.

3) THE PROPOSED DISTRIBUTION FORMULA FOR THE $3 BILLION "HOUSING OPPORTUNITY PROGRAM" IN S.565 MUST BE CHANGED, TO GET FUNDING DIRECTLY TO THE LOCAL LEVEL.

FOR MANY YEARS, LOCAL GOVERNMENTS HAVE TAKEN THE LEAD IN THE CREATION OF AFFORDABLE HOUSING. MORE RECENTLY, STATES HAVE BECOME INVOLVED, AND OUR OWN STATE HAS BEEN A LEADER IN THIS AREA. MAYORS AROUND THE COUNTRY HAVE POINTED OUT TO ME, HOWEVER, THAT NOT EVERY STATE IS AS PROGRESSIVE IN HOUSING AS MASSACHUSETTS, FURTHER, WITH A NUMBER OF STATES FACING FISCAL

CRISES, INCLUDING OUR OWN, THERE MAY BE A TENDENCY TO SUBSTITUTE ANY NEW FEDERAL DOLLARS FOR EXISTING COMMITMENTS AT THE STATE LEVEL. WE HAVE ALREADY SEEN MANY OF THESE PITFALLS IN THE ANTI-DRUG ABUSE ACTS OF 1986 AND 1988, AS DOLLARS THAT ARE NEEDED IMMEDIATELY IN OUR NEIGHBORHOODS GET ENTANGLED IN STATE BUREAUCRACY AND RED TAPE. LET'S NOT HAVE THAT HAPPEN WITH FEDERAL HOUSING FUNDS.

4) LINKAGE OF NEW HOUSING LEGISLATION WITH EXPANDED ECONOMIC OPPORTUNITIES.

AS JACK KEMP POINTED OUT IN BOSTON RECENTLY, IT IS HIS INTENTION TO BE THE SECRETARY OF HOUSING AND URBAN DEVELOPMENT. AS MUCH AS WE NEED HOUSING, WE ALSO NEED TO EXPAND ECONOMIC OPPORTUNITIES IN OUR INNER-CITY NEIGHBORHOODS TO REPLACE DRUG-DOMINATED ECONOMIES WITH PRODUCTIVE ECONOMIES. TO THAT END, I HOPE THE SENATE BANKING COMMITTEE WILL CONSIDER LEGISLATION SUCH AS THE "GATEWAY" LEGISLATION PROPOSED BY SENATOR BARBARA MIKULSKI WHICH WOULD EXPAND JOB TRAINING AND ECONOMIC OPPORTUNITIES FOR PUBLIC HOUSING TENANTS. I WOULD ALSO CALL THE ATTENTION OF THE COMMITTEE TO A RESOLUTION WHICH I FILED AND WHICH WAS ADOPTED BY THE UNITED STATES

CONFERENCE OF MAYORS LAST MONTH, CALLING FOR AN EXPANDED CONCEPT OF ENTERPRISE ZONES, WHICH WOULD PROVIDE TARGETED GRANTS FOR EXPANDING EDUCATION, JOB TRAINING, LITERACY AND DRUG PREVENTION PROGRAMS IN THESE ZONES.

5) A "WHITE HOUSE CONFERENCE ON HOMELESSNESS" SHOULD BE ESTABLISHED. DURING LAST YEAR'S PRESIDENTIAL CAMPAIGN, I SUGGESTED TO BOTH CANDIDATES THAT A WHITE HOUSE CONFERENCE ON HOMELESSNESS WOULD DO MUCH TO FOCUS ATTENTION ON THIS GROWING NATIONAL CRISIS. SINCE THAT TIME, SENATOR AL GORE OF TENNESSEE AND REPRESENTATIVE MICKEY LELAND OF TEXAS HAVE FILED BIPARTISAN LEGISLATION TO ESTABLISH A WHITE HOUSE CONFERENCE ON HOMELESSNESS. WHILE FULL FUNDING OF THE McKINNEY ACT PROGRAMS IS ESSENTIAL AND WELCOMED, WE MUST CALL ON EVERY POSSIBLE RESOURCE -- PUBLIC AND PRIVATE -- TO END THE SHAME OF HOMELESSNESS IN AMERICA. A WHITE HOUSE CONFERENCE ON HOMELESSNESS, CONVENED BY THE PRESIDENT OF THE UNITED STATES, WOULD DO JUST THAT.

THESE FIVE INITIATIVES WHICH I HAVE PROPOSED WOULD ADD TO WHAT IS ALREADY A STRONG LEGISLATIVE PROPOSAL. IT WOULD REENLIST THE FEDERAL GOVERNMENT IN THE FIGHT FOR AFFORDABLE HOUSING. IN THE PAST, UNDER BOTH DEMOCRATIC AND REPUBLICAN

PRESIDENTS, THE FEDERAL GOVERNMENT ASSISTED IN THE CONSTRUCTION OF 200,000 TO 300,000 NEW AFFORDABLE UNITS A YEAR. IN 1981, THE FEDERAL GOVERNMENT COMMITTED $33 BILLION TO AFFORDABLE HOUSING, IN PRESIDENT REAGAN'S LAST BUDGET, SUBMITTED AT THE BEGINNING OF THIS YEAR, ONLY $6.5 BILLION WAS PROPOSED -- AN 80 PERCENT REDUCTION.

THANK YOU SENATOR KERRY, FOR HAVING THE HEARING IN BOSTON AND ENABLING SO MANY PEOPLE WHO HAVE WORKED HARD ON HOUSING ISSUES AT THE LOCAL LEVEL TO BE A PART OF THIS IMPORTANT NATIONAL LEGISLATION.

Senator KERRY. Thank you, Ray, very much. Thank you, Ray. I am delighted now to welcome the opening panel that is the only real panel that we're going to have today before we move into the roundtable. And the reason we are asking only to have this one opening panel is because we want them to really frame the topic for this morning and frame the issues.

So George Holbrook, we welcome you. He is a writer and waiter, first-time home buyer from Woburn, Mass., who will tell us of his efforts to recently become accepted for approval in the HOP Program.

Sarah Flint-Elsey, who is the Executive Director of the Tenants United for Progress Republic Housing at Orchard Park.

And Mary Yeaton, who is the President of the Grant Manor Tenants at Grant Manor.

And we're delighted that all of you are here with us, and we're going to begin with George, then we'll go to you, Sarah, and then finally to you, Mary. And then we'll ask some questions. George, why don't you lead off?

OPENING REMARKS OF GEORGE HOLBROOK

Mr. HOLBROOK. Listening to the housing dilemma, as you have stated today, I feel very fortunate. My wife and I have just been approved for a Housing Opportunity Partnership assisted mortgage on a condominium at the Battle Road Farm Project in Lincoln, Massachusetts. And the Housing Opportunity Partnership promotes partnerships for affordable housing among State and local government, private industry, and non-profits.

My wife and I have been renters in the Greater Boston Area for almost 10 years. And we have been saving for a home of our own for most of that time. We aren't wealthy. My wife is a preschool teacher in Lincoln, and I am a writer working in the restaurant business here in the city to boost my income.

We have always thought of ourselves as middle class. But as time has passed, we have become aware that we simply couldn't afford a market value home in Massachusetts. Although we had a respectable down payment saved, we couldn't afford a conventional mortgage. The real estate market here was beyond us.

The matter of our living situation has recently been brought to a head when our landlord asked us to leave the small house that we had been renting quite reasonably for some years so that his mother-in-law might move in. Because even rents have gone so high in the area, we could see no alternative but to move out of State, forfeiting the investments that we have made here in Massachusetts.

But now, with the assistance of the Housing Opportunity Partnership Program, we are to become homeowners here in the Boston area, which makes us very happy. The process of obtaining this mortgage has been long and arduous, and sometimes downright absurd, but it's been worth it.

We anticipate serving in the condominium association for the Battle Road Farm Project. And we look forward to becoming active in our new community through local organizations and at town

meetings which, since Colonial times, has helped to make Lincoln such a unique and desirable place to live.

We are grateful for the opportunity to become shareholders in the American dream of owning a home—a place to raise a family. Surely many hard-working Americans in situations similar to ours deserve the same opportunity. Thank you.

Senator KERRY. Thank you very much. Sarah?

OPENING REMARKS OF SARAH FLINT-ELSEY

Ms. FLINT-ELSEY. Good morning, Senator and members of the Subcommittee and invited guests. My name is Sarah Flint-Elsey. I would like to thank the Subcommittee for the opportunity to speak this morning.

I have lived in Boston public housing for the last 25 years of my life. I have raised three children in the Orchard Park section of Roxbury. I am currently Executive Director of Tenants United for Public Housing Progress, which is an organization run by public housing tenants throughout the City of Boston. Tenants United was founded in 1984 by tenant leaders and advocates to be a stronger vehicle for public housing tenants' voices to be heard.

Over the past 15 years, affordable housing stock has badly decreased. Sir, I would like to know, when will the promise made by Congress in 1949 Housing Act be kept? This act promised safe, affordable, and sanitary housing for every man, woman and child in the Nation. I know that in the last 8 to 10 years, Congress has not put out any money towards public housing or affordable housing. But each year, the amount is reduced, leaving local housing authorities looking to State funding, which tells us that the Federal Government is giving up on public housing and affordable housing.

It's a sad state of affairs when the country we live in cares more about the aid of savings and loan institutions, putting billions of dollars toward military aid and weapons, and not coming to the aid of the poor and the homeless.

Speaking of homeless, the whole composition of homeless individuals has changed. At one time, we looked at it as only being the mentally ill. Now it's elderly, low-income, and even public housing residents—families, excuse me.

Public housing has changed. Now the form of not enough affordable housing—families in the past who looked down at public housing, they are seeing that there is nothing else affordable for them. That, I feel, has increased the wave of this in the City of Boston and, I assume, throughout the Nation.

Some public housing residents that have lived there for the past 15 or 20 years, they have adult children remaining at home due to the fact that even though they are working, they cannot afford the rental rates nowadays. I for a fact, have an adult son who is working, but he cannot afford to live, you know, with the rent situations as they are.

We're also in the situation where, because we will be over income—we know there are families that are making less income. But we still are not at the level of being able to go out into the private market, let alone looking at buying a home, which has been a dream I've had for me and my kids for years and years.

This wouldn't be a problem if there was more affordable housing available. If Congress can bail out savings and loans, why can't they bail out the American people the same way? It seems that the same people who had nothing to do with this situation are the ones that are paying the consequences.

The 1949 Declaration of National Housing Act was passed the same year I was born. The housing development in which I live was built in 1942. No major upgrades have taken place for 20 years. Over the last 5 years, there have been minor repairs. There have been units that were closed, opened up. But the units in which families have lived for 20 to 30 years are not being repaired because the Federal Government states the money only goes towards unoccupied units, which I feel is ridiculous when there are people living in deplorable units, which I still say have been upgrade in the last 5 years.

I would like to end by asking the Subcommittee to really look at the issues of public housing throughout the Nation. And on October 7, 1989, when advocates from all over the Nation walk to Washington, that you please respond to their concerns. We all must work together on a lot of issues to reshape the foundation of America. Thank you again for your time and attention.

[Applause.]

Senator KERRY. Thank you very much, Sarah. Mary Yeaton?

OPENING REMARKS OF MARY YEATON

Ms. YEATON. My name is Mary Yeaton, and I am a long-time resident of the HUD subsidized housing and currently serve as Chairperson of the Grant Manor Tenants Council. Today I am speaking in my capacity as Chairperson of the Boston for Equal Housing Coalition Tenant Alliance. The Alliance includes eleven local groups representing over 2,000 families from Grand Manor, Essex Square-Roxbury Homes, Granite Properties and other developments.

Since 1983, the Boston Housing Alliance has been leading the fight to preserve our homes as decent, affordable housing and in the face of the Reagan Administration's strategy for the privatization. Although not a single unit of affordable type housing in Boston has been lost since we began this struggle, I look at the horrible conditions of Geneva Apartments or Academy Homes. This shows that we still have a long way to go before the crisis in our homes has passed.

The seriousness and extent of the high housing prices nationally, both in financially distressed developments like Grant Manor, and the newly emerging expiring use developments, like Castle Square, needs no elaboration. Over 600,000 families across the country are looking to the new HUD administration and to Congress to solve the crisis and preserve these precious resources as permanently affordable housing each year.

Recently, working through the National Placement Project of the Low-income Housing Information Service, the Boston area HUD Alliance has opened up an exciting dialogue with key advisors to the new HUD Secretary, Jack Kemp. BAC has presented HUD with a comprehensive set of policy recommendations affecting the

full range of HUD housing issues based on the expanse of local tenant groups in dealing with HUD over the years.

I am very pleased to report that at a meeting in Washington which I participated in 3 weeks ago, the Kemp team has agreed in principal to embrace our basic goals, including one, a commitment to preserve all HUD housing for affordable use. Two, the creation of an office of Housing Preservation. And three, suspending promotion of transfers of at-risk HUD developments and non-profit resident cooperatives and/or neighborhood based organizations.

Prioritization of existing subsidies to promote these transfers. And five, fostering tenant participation and access to the decision-making at all levels of HUD.

Apart from these policy commitments, the very fact that top HUD officials are discussing options facing today's tenant leaders from across the country is itself an unheard departure from the past. Along with Secretary Kemp's open leadership, and the fact that the two-year emergence of the Housing Preservation Act expires this year, this dialogue has convinced us that this is the year to form a comprehensive solution to the at-risk housing crisis.

The Senate Housing Subcommittee has a crucial goal to play in this regard. We have--Senator Cranston and D'Amato on including a proposal for an office of Housing Preservation at HUD, an office which will clearly declare the Federal Government's commitment to finally preserving all multi-family HUD housing as affordable housing to promotion of community-based, non-profit and resident home ownership.

Although Secretary Kemp has agreed to this approach, it is important that Congress, to define its mission, legislate in loose terms. Specifically, we recommend that such an office receive HUD's current loan management and property visit position divisions.

Firmly establishing HUD's commitment to housing people is a higher priority than is fiduciary responsibilities, or—as in the past, we see experiments with prioritization. This approach is also preferable to segregate the off-housing preservation as a new ombudsman office for the middle will power to affect the future of our homes.

The Housing Preservation Office should appoint and be provided with additional well-trained staff with a mandate for tenant participation at all levels. Maybe we have to do disastrous lay-offs. These types that led directly goes to the HUD's annals due to insufficient oversight and, more importantly, to the maligned and--of our homes.

A comparison of any HUD development in Boston with any development overseen by the State MHFA with its far superior management oversight capacity, shows that the deplorable conditions which we suffer daily are a direct result of HUD policy.

However, the Senate can do much more to address this crisis. We strongly urge the addition of a housing preservation section to the Cranston and D'Amato bill, incorporating the recommendations of the National Housing Coalition, which we helped to prepare.

Due to limited time, I will confine my remaining remarks to a few points where Congress must take the lead to help forge a comprehensive solution to the at-risk housing crisis this year. The

single most important tenant's needs is a permanent extension, not just 2 years, of the framework adopted by the Congress in the 1987 Emergency Housing Preservation Act, regionally upheld in the Federal courts.

To help assure that a permanent extension also passes, that constitutionality has the support in—of a formula to guarantee owners a reasonable weight of return on their actual initial cash investment. This step alone will do more than anything else to lend unjustified windfall profits being demanded by industry already bloated from federally financed windfall profits of the past. And it will reduce dramatically the amount of Federal subsidy outlays required to preserve affordable housing in the future.

The Gonzalez bill in the House already proposes extending the 1987 framework. But for only 2 more years, we strongly urge Senator Kennedy and the Senate Subcommittee to take the lead in calling for a permanent extension.

We urge inclusion in the Senate bill a new funding to promote—as an activist on housing to non-profit ownership. These funds would be used to encourage current owners to sell non-profit or resident cooperative home ownership insuring both the purchase and decent repair operating budgets.

Additional section 8 subsidy—section 8 contract authority, beyond the extension of current subsidy commitments, should also be sought for these purposes.

We also encourage the committee to include in a Senate bill those provisions of the Gonzalez bill proposed by Congressman Kennedy, which would allow for the forgiveness of capital gains or tax indication—penalties in the event an owner donates or—himself the government to a resident cooperative non-profit organization, or company agency omitted—to admit affordability. Such an admission—an aggressive outreach program by HUD to accept—and will foreclosure and at-risk buildings would be installed. And the dramatic flowering of the resident home ownership and the reduction of the number of units at risk.

At Grant Manor, at Roxbury Homes, for example, the current owners have indicated the willingness to sell to tenant co-ops in the event the branch out proposal passes. And our tenant organizations are anxious to move forward to take over these co-ops if this is achieved.

We strongly urge inclusion of a special private budget item for security and social service in crime troubled projects with supplemental HUD funds to help management companies hold down the crimes, drugs, and youth gangs. At Grant Manor and other developments, we have had partial success in persuading HUD to fund security programs. Creation of a special program modelled on the State's MHFA Security—initiative in the Granite Properties should be adopted by the Congress nationally.

Congress could take another cue from Massachusetts by adopting a national version of Massachusetts Chapter 139, section 20, which allows for legal sanctions against landlords who fail to take reasonable steps to secure their buildings against crime and drugs.

With bold leadership in the Senate to match the bold leadership of Secretary Kemp and the awakening of HUD tenants across the country, this is the year to transform the prices of HUD housing

into a grand opportunity for tenant ownership and a partner. The measures we recommend will achieve these goals and the most cost effective manner to the Federal Government. The alternative proposed by the owners to throw ever-increasing subsidies away to them in exchange for keeping our homes affordable is morally and economically unacceptable.

Fewer than 100 individuals or entities own over half of HUD housing in America. These individuals, the Allan Errs, the Brian Laskeys, the Johnsons, the Shumans, have received incredible subsidies and tax shelter profits for 20 years. And by and large, hundreds of HUD tenants like myself have seen very little for the government's investment. And in fact, we live in some of the worst housing in the land.

If there is one lesson to learn from the recent HUD scandals, it is that the close relationships between these private developers and HUD must end now. Congress should take the opportunity to end the blank checks to these greedy few and instead turn over the subsidies to the tenants and non-profit community groups to own and manage our homes. In partnership with HUD, we will do a far better job.

We ask the Subcommittee to take leave on these issues, and I appreciate the invitation to participate in today's hearing.

[Applause.]

Senator KERRY. Thank you very much, Mary. I'm glad you weren't too precise in what you think we ought to do. [Laughter.] You left us a little wiggle room there. Your testimony is important, and I appreciate very much the time and thought that you put into it. It's very helpful to us.

Let me ask you, if I may, leading off the questioning. The Housing Preservation Office which the Act puts together, given the obvious tension that's going to exist over money and its division among all of the priorities we face, would you try to set some very specific priorities in terms of the preservation expenditures, or just the office's priorities?

Ms. YEATON. The priorities for the Act of Preservation?

Senator KERRY. Yeah.

Ms. YEATON. Well, let me tell you why we—one of the things that has happened over the last, you see the maligned neglect of HUD properties. And the main reason for that is that tenants have no access to HUD. When they decide to sell a property, we know nothing about it—and we need some sort of mechanism in place so that we know what's happening with our properties and cut down on the anxieties.

There is no possibility for budgets that are given by HUD to managers, development companies at all—tenants have no access to that. There is no oversight and no supervision. Now, you had an office of loan and disposition. But that's all they do, is to transfer property. There is no way that tenants can participate in the HUD process.

And the establishment of that office is crucial if we're going to turn all of this process around. And I know that single home ownership is the American dream, but all of us can't participate in the American dream if that capacity where we can participate in the American dream of home ownership through cooperatives. And I

am quite sure that we can't do any worse job of managing HUD properties than has been done in the last 20 years.

Senator KERRY. George, with respect to your efforts as a first-time home buyer and a somewhat different situation than the other obviously. But did you investigate FHA or other efforts? Did you go through a frustrating search process, or did you just do the normal bank mortgage route?

Mr. HOLBROOK. We tried to go the direct bank route and were frustrated by that. And then we started to investigate the MHFA programs. And at the same time, we were appraised of the development of the Battle Road Farm Project by friends in Lincoln. So we were very fortunate in that things materialized for us at the same time that we were forced into a situation where we had to make a decision.

Senator KERRY. Among your peers and friends and others, do you find that this is a situation that's repeated again and again?

Mr. HOLBROOK. Most of my friends are spending money on rent that's just going out the window without any dreams of owning their own homes at all. And I must reemphasize how fortunate I feel hearing the other testimony here today for the way things have gone for my wife and myself. This HUD program is a wonderful thing which should certainly be concentrated on in the future, in addition to these other programs.

Senator KERRY. Sarah, the Affordable Housing Act seeks to establish a commission on severely distressed public housing. And it is going to identify those public housing projects that are in a severe state of distress, giving the specific priority to those units that have those projects that have more than 500 units, projects where the vacancy rates are over 15 percent——

Ms. FLINT-ELSEY. Right.

Senator KERRY. Projects where there are predominantly children, and finally, projects where there are high-rise elevator structures. What do you think should be the mixture of what we consider severe state of distress? Are there other ingredients that you would add to that definition that you think should be set out in the legislation? For instance, high unemployment rates or broken families, welfare dependency within the units? I mean, are there other things that might characterize it as in a severe state of distress beyond what is currently—what I just articulated, those four items?

Ms. FLINT-ELSEY. No. Basically, you have covered most of the areas that have already been looked at and worked on with the tenant groups and in other agencies throughout. I mean, because public housing, as I stated earlier, isn't in a state where there is not in every area a high unemployment rate as far as welfare dependency. There is working class. There are, I would assume, in all of them—the majority, there are 24 in Boston. They are all high rates of with children. Some of them still have a high rate of elderly, even though there are a lot of elderly units which are separate from the family developments.

Senator KERRY. What do you think is the most important ingredient of this legislation from your perspective? What's the most important thing that you believe has to happen to make your situation better and the situation that you're representing?

Ms. FLINT-ELSEY. Well, action for one thing because the last few years I have been hearing about this Act. But there is no results being seen. I also feel that, in order for different components to be worked out, you have, as Mary said, you need the tenant participation. Because the tenants are the ones who actually live through this. And I'm glad that I have the opportunity to speak at one of these subcommittees. And hopefully, we can have more where you can get a clearer view on exactly what individuals are living through.

Senator KERRY. Mary, do you want to try to answer that question? What's the most important ingredient from your perspective in trying to address the problems you articulated when you set priorities?

Ms. YEATON. The tenant participation is really the key because we found that—by the Marksdale, Charlane, that are now cooperatives. Just look at them, the difference between that are tenant owned and occupied, from the ones where tenants do not have the investment. When people make a personal investment into anything, they take pride in it. And so this is what is really needed.

And in the Office of Preservation, that's why we're asking—even though HUD can do this on a policy basis and they make overtures that this is a possibility, we would like very much to see this Office financed and run in an adequate way so that tenants can participate and will offer technical assistance to us to be able to learn how to run a budget. To learn how to manage the property, and to learn how to keep it from falling back into the kind of disrepair that the developers and managers have done.

Senator KERRY. Joe?

Representative KENNEDY. Thank you, Senator Kerry. First, Mary, I just want to let you know how impressed I was with your testimony and the extent of your knowledge of the system that has taken place in Washington, through the dismantling of so many of the programs that provide George with an opportunity to buy a home or Sarah to live in a comfortable home in the existing housing that she is living in.

The fact is that we have seen—and you sound like you have had a meeting with Jack Kemp. I know the Mayor has. I'm sure John Kerry has. I have. And he's a wonderfully enthusiastic individual, and it's nice to see, as so many Democrats seem to be becoming republicanized these days, it's nice to see Jack becoming democratized.

The fact is, when all is said and done, Jack Kemp is simply not getting the money that he needs to fulfill the promises that he's making. And I think in the meetings that I've had with him on the expiring use, I was delighted to hear that he mentioned to you that he would move forward on an Office of Preservation. He indicated the same thing to me. But on the other hand, the fact is that we don't want to just win another form over substance. And if we achieve a new office in HUD, we also have to provide the funds.

I know there are many of the landlords that I met with a few years ago when we were first looking at the whole issue of expiring use. And even though I think we do have some very concerned landlords about the future of the tenants in those buildings, there are some—maybe not just in this State—but there are some across

this country that are very willing to line their pockets at the expense of the tenants.

Now, I think the administration's estimates, as I understand it, out of some potentially million apartments that would be at risk, there is some more realistic numbers, about 450,000. The administration's own numbers, I think, would indicate there is about 150,000 out of the 450 that would really be at dire risk. And they feel that through various incentives, they might be able to hold onto about a 100,000 of them if we're able to pass these through the House.

Now, just so people are aware, we have a very tough problem which Senator Kerry is very aware of. At least on the House side. We have a big fellow named Dan Rostenkowski, who says listen, you're going to pass a bill that provides a tax incentive. I want to see an offset. I want to see somehow where the Federal Government is not going to end up losing money.

Now, I'm not going to put it on you to suggest how the Federal Government is going to do that, but the fact remains that we have seen in the Federal Government a reduction of over 70 percent—70 percent! Last year we had a bill on the House floor pass all the appropriations bill. But the space station was $400 million short, in order to put a manned space station up in space. So what happens on the House floor? Somebody says, listen, we need $400 million for the space station. Let's take it out of housing. We got about a hundred votes to stop it. I mean, we'll house people in the heavens, but we can't house people here on earth.

So it just seemed to me that we've got to be willing to stand up sometimes to the powers that be and let them know that this is not the kind of policy that the American people want. I don't believe it is the kind of policy. But we need to hear from you in Washington.

I am delighted. Sarah, you said you're going to come down to Washington shortly?

Ms. FLINT-ELSEY. I've been there before. I'll be back.

Representative KENNEDY. On which date?

Ms. FLINT-ELSEY. October 7th.

Representative KENNEDY. Tell us a little bit about what you're going to do on October 7th?

Ms. FLINT-ELSEY. The same thing we do every year. I have been going to Washington the last 3 years. And we go to talk to our Massachusetts Congressional officers and let them know what our concerns are. I haven't had the opportunity to testify at Congress yet, but we have gone up to Capitol Hill and had rallies and talked to—as a matter of fact, a couple of years ago I was at your office.

Representative KENNEDY. I guess what my point is, we've had so much focus by Secretary Kemp on the whole issue of drug abuse in public housing. I know that Ray Flynn is very concerned about it. I've been over to East Boston with him, and we've seen drug abuse taking place just below, a rally that was taking place at a public housing project over there. So you can see—and the police are in a terrible bind on it. And all the rest. But that is the focus of the Federal Government's policy——

Ms. FLINT-ELSEY. And that shouldn't be the focus——

Representative KENNEDY. And I want to hear from you whether or not this whole notion that we should be fencing off public housing projects and the like—and that is the basic——

Ms. FLINT-ELSEY. The problem is not only in public housing. It's all over. And to have the focus just on public housing is not fair. And to use it as a vehicle to put together—that's in Congress. We deal in public housing with waivers that are possibly violations of residents' rights. For the safety and well-being, yes, there should be waivers and speedy evictions or whatever is necessary. But to focus it all on public housing is not fair.

There are other issues that have to be addressed, like the issues of no housing for individuals. You have to look at exactly what this cause is. One of the things, public housing residents are not bringing all these drugs and weapons into this country. So those are the things that have to be looked at. Funds shouldn't be going to buy weapons to kill. They should be used to continue the life.

I mean, it's time that voters and taxpayers go to Washington and meet the powers that be. And I intend to do it as long as I can because I am speaking for a lot of people I've heard. They are really tired of seeing the way low, poor taxpaying people are being treated.

Representative KENNEDY. Well, Sarah, I want to thank you for your statement and let you know we look forward to hearing from you in Washington.

Ms. YEATON. HUD's own subsidized housing that I live in is just as bad off as the public housing units, and it's primarily because they have mismanaged their properties. And they have not listened to the tenants that are there. We haven't even been able to pay our rent for the last month because the office doesn't cooperate——

Representative KENNEDY. Don't complain to Marv about that. [Laughter.]

Ms. YEATON. But I do complain because that's just indicative of the laxity of the management that HUD hires to run their buildings. That's why they allow drug people to move in and to allow the crime element to take over our buildings. Because we were almost impotent against them. But don't worry. Public housing can have tenants that are cooperating together.

Representative KENNEDY. Well, I know that we have somebody out in the audience who has been really trying to take a lead on some of these issues in fighting for the rights of people in public housing. And I think that we need that in conjunction with the efforts that are made by you to let us know in Washington what that balance is between the individual's rights and also the rights of the individual to be protected.

George, I have one last final question, if I might, Senator. I participated some months ago in a new initiative that Senator Kerry had devised to try and provide people like yourself with a mechanism of saving in your bank account for the purposes—and getting a tax break—for the purposes of putting a down payment on your first home. Could you tell us a little bit about whether or not that down payment issue was a serious one for you? And if you're familiar with the Senator's plan, maybe you could make a comment or two about what he put forth.

Mr. HOLBROOK. I think it is a very wise plan to make. It's not something that we have been saving for a long time. A little bit at a time. We've been saving for 10 years. We save a little bit at a time, and it adds up over 10 years to be a respectable if not huge down payment for a home.

Representative KENNEDY. You are saying you already got——

Mr. HOLBROOK. We have been saving for 10 years for our down payment, and we came up with a decent down payment, which we have used to buy this HOP assisted condominium in Lincoln. We did not use the Senator's plan, although I think it's an excellent plan. And I would recommend——

Senator KERRY. Was the down payment something of a hurdle to you in the process?

Mr. HOLBROOK. Well, it was a 10-year one, I would say. It was a requirement that we have this money to be eligible for this program. We would not have qualified for the numbers without it. So if we had not made that effort over the 10 years, we still would not have been able to avail ourselves of this program. But it did take a long time for us to do it, so I would say it was quite a hurdle in that respect.

I certainly think for people who are starting to save for their down payments now, that your plan is a good one, and I would recommend that to them.

Representative KENNEDY. I would be interested in seeing, Senator, a difference between what George had to do to save the amount of money he set aside, versus if he could participate in your plan for the last 10 years, how much that could have provided him.

Mr. HOLBROOK. I wonder what the differential would be.

Senator KERRY. Let me ask you, if you're willing to share with us, how much did you save for a down payment in those ten years?

Mr. HOLBROOK. Ten thousand dollars.

Senator KERRY. Ten thousand dollars. And the purchase price on the home you're buying?

Mr. HOLBROOK. Ninety-eight thousand.

Senator KERRY. Ninety-eight thousand?

Mr. HOLBROOK. That's the subsidized price.

Senator KERRY. Now, if you——

Mr. HOLBROOK. I want to just point out that the HOP Program is essentially a loan program. It's not a subsidy. It's to be paid back.

Senator KERRY. But if you had been able to target a home at a specific price and go to a bank and purchase a contract with that bank, which would have allowed your interest to be tax-free and accrue and know that your down payment would be covered after a specific period of saving, would that have encouraged you to perhaps save more even——

Mr. HOLBROOK. I would say it would. I would say that at the beginning of the process, that our income was not large enough to have that factor—the interest being tax free would not have made an essential difference at the beginning.

But the encouragement over the long term I think would have made a difference to us. And certainly as the money accrued, that interest being tax free would have made a substantial difference as

we neared that $10,000 figure, the interest certainly would have made a healthy difference.

But at the beginning of the process, I'm not sure how much difference it would make. If you're talking about having $1,000 saved, interest on that is not really a whole lot. But I think just the impetus behind it—the idea behind it, the encouragement, would make a difference for a lot of people. I'm sure we would have been more inclined to go that route with more vigor if your program had been in place.

Senator KERRY. Did you find that as you were saving for the home that you felt you were saving for and that you had a sense you might be able to buy in five years, moved away from you because of——

Mr. HOLBROOK. Oh, absolutely. Absolutely. With an idea—you think 10 years down the road you'll have $10,000. And that's going to go a long way. But when that 10 years is over, you find that it's not really going to go a long way at all. And certainly 5 years down the road, you see it creeping away, less and less successful.

Senator KERRY. What we would like to do now—I want to thank each and every one of you. Particularly, I want to thank you, Mary and Sarah, for your leadership and the roles that you have been playing, which are just awfully important. There is no way to describe how important it is.

But I think that from my part—and I know from Joe's and Ray's—there is a real frustration in our having to sit here and listen to you berating the stupidity and the insensitivity of institutions that were set up to try to respond to the very needs that you're expressing here. And it makes me very angry, and I know it makes Joe and Ray angry that people aren't doing the things that they are supposed to do and that somehow they give off an air of indifference and not caring and so forth.

Joe talks about trying to affect the powers that be in Washington. You folks sent us down there to be the powers that be. And we're certainly trying to persuade people that the response ought to be different and ought to be better.

I think we're heading on a real road of confrontation, if you want to know the truth. We're going to either deal with this, or we're going to find people like yourselves having run the course of patience. And there are going to be folks back out on the streets, clamoring for a response. And well they ought to be, incidentally, if they don't get one soon.

So I want to thank you for sharing these thoughts with us. And I think you have well framed the problem. And now I really want to ask our panel of patient experts who have been sitting in the audience to join us. And if they would take seats at both of these tables. And if Amy Anthony would join me up here, we would like to open the dialogue portion of the roundtable part of this.

So Marv Siflinger, if you would grab a seat over here, and Bill Apgar, Adolfo Aquirre, Bill Jones, Bob Kargman, Richard Pollard, and Bob Sheridan.

Let's not move anything. Amy, do you want to come up? Is Kevin here?

Now, I would like to keep us rolling here. And here's how I'd like to do this if I can. First of all, thank you all of you for taking the time to join us.

Some of you have already testified in Washington. All of you are experts. You are well versed in this bill, well versed in the issue itself. And what I'd like you to do is really cut to the quick of the issues that are in front of us.

Now, there isn't one of you that hasn't analyzed this or who hasn't got a strong sense of where we ought to be going with respect to these issues. And it would be very helpful as we move around—and what I'd like to do is just move around sort of counterclockwise here at first. And then really open it up at random.

And I'd like you—if you disagree with each other, I want you to disagree. Just openly and willingly and without feeling somebody has got to call on you to disagree. If you want to reinforce something someone says, jump in and reinforce it. I'll try to act as something as a referee, but I really want this to be a chance to do what you don't often get in the normal hearing process.

And I have found that these roundtable discussions are frankly very much better than the normal hearing process that we have because you tend to get a less stilted presentation. And we also tend, I think, to have more spontaneous discussion where we're getting at counter issues and the counter to the counter issue and really hearing a discussion that is far more productive in the end than just hearing canned testimony and a few pro forma questions.

I'd like to ask Amy Anthony, however, to lead it off.

Thank you, Doris. I would like to ask—Doris, if I forget, I apologize for not listing you in that first group, but I knew you were going to—we had talked earlier, and I was well aware that you intended to be a part of this. And I apologize in my general discussion there for not including your name.

Amy Anthony has led the practitioners' effort of filling the gap on behalf of Governor Dukakis and the State and has done an exemplary job in doing that. She knows the housing issue backward and forward. She knows what the Federal involvement ought to be, what it isn't, what it can be. And I'm delighted to welcome her.

She is the only person I'm going to introduce, and I want each of you to introduce yourselves as we go around after that. But I would like Amy to lend us her observations as an oversight and as a beginning of the roundtable discussion. Amy, thank you for joining us.

OPENING REMARKS OF AMY ANTHONY

Ms. ANTHONY. Thank you, Senator. It's good to be here today, Senator. And it's a pleasure to welcome the Senate Subcommittee on Housing in Massachusetts. As president of the State Community Affairs Agencies and as a member of the National Housing Task Force established by Senator Cranston, I have travelled a great deal throughout the country and have been well aware of both of the tremendous problems caused by the last years of Federal withdrawal and also aware of the enormous growth in energy and activity at the State and local level across the country responding to this very large problem.

The Subcommittee that is here today has heard from hundreds of witnesses over the past several years. I think there is a growing impatience nationally, but also a sense of opportunity. And I think it's critical that the National Affordable Housing Act that has been put together under Senator Cranston and your leadership move forward to provide the opportunity for national legislation that sets forward a framework that comprehensively addresses housing need. It emphasizes partnerships and flexibility to States and localities and builds on the capacity that has been emerging. And I think that is very significant, that capacity.

States have a critical role to play in meeting the need for affordable housing, and they are new actors to the scene, without question. The renewed Federal role must also recognize the difference between regions and must allow for areas like ours the support for new production. It must allow the building of new housing where the strong market forces require that that be done.

We also need to ensure that the private sector can remain an active participant. While the non-profit sector is critically important that we have in Massachusetts, encouraged and helped to build it. But it can't work alone. The for-profit sector must also be a part of the solution to the problem, and we believe very strongly that that is possible without any sacrificing of the long-term important public benefits.

We need to encourage positive behavior on the State and local levels. We should reward efforts that ensure maximum coordination and that produce housing in the most effective manner into the mixed income housing.

It's particularly critical to the future of housing programs that we have seen them come and then go. That we develop programs that are fiscally in Massachusetts, we have also had a very considerable success in strengthening strong local efforts to promote housing. We have 170 partnerships around the State, and the need to provide—to ensure that locals not just provide housing for the elderly, but for low-income families for those with special needs.

We can't assume positive action on the local level, however. Housing is still viewed as a negative by some communities. Even though it has merged the location of job-generating industries, are still not willing to provide the housing to support those workers. States can and must play a key role in providing the carrots and sticks to stimulate the acceptance of affordable housing at the local level.

The National Affordable Housing Act recognizes the realities of what has taken place over the last decade. And I think it seeks to frame and approach to a new Federal role that capitalizes on those developments. What is most critical is that we get housing legislation soon, we get a significant number of Federal fund leadership so that we can again have the leadership and the partnership for the Federal Government. Thank you, Senator.

Senator KERRY. Thank you, Amy, very, very much. Let's just move right around here. Richard, why don't you pick up. And each of you can—if you want to make comment, but if you want to fire back and get involved, please do so. I'm going to ask Joe just to chair for a couple of minutes while I step out for a sec, but continue right around. I'll be right back.

OPENING REMARKS OF RICHARD POLLARD

Mr. POLLARD. Senator Kerry, I'm Dick Pollard, Chairman of the Massachusetts Banker's Association and Chairman of the BayBank Boston. I just wanted to comment that this hearing is very timely. As many of you know, we're in the process of holding community seminars along with Dick Syer and the Federal Reserve Bank on the whole issue of affordable housing, availability of housing, in addition to the other problems which come along with issues, such as the availability of banking services in minority areas, availability of small business loans.

So it's our belief that these hearings are about time. We at the Massachusetts Bankers are obviously looking at the same problems everyone else is. We see the problems from many views. An important part of the issue is the fact that lack of affordable housing and availability of housing in Massachusetts is certainly doing nothing for the business community at large.

And we find it extremely difficult to bring people in Massachusetts or retain workers who are faced with houses that are just too expensive for them to afford down payments which, for their salaries is too large. And this has been a phenomenon in Massachusetts that has only occurred in recent years. We were not 10 or 15 years ago in the position of having the kind of inflated housing prices we now have. It's come on the scene in the last 4 or 5 years, part of the business growth of this area, and gone right past the point of where houses for any age group or any income group become affordable.

So as I indicated, the Massachusetts Bankers are very interested in what's going on. We sponsored these hearings, along with the Fed, and we are as you might see, quite invested in this bill.

Representative KENNEDY. Thank you very much, Dick. Bob Sheridan from Massachusetts Bankers?

OPENING REMARKS OF ROBERT SHERIDAN

Mr. SHERIDAN. Mr. Chairman and Representative, it's a pleasure being here. I guess I'd like to just follow up. And clearly, I have to agree with everything that the Chairman of Massachusetts Bankers if I want to remain the President of Massachusetts Bankers. [Laughter.]

I do believe that this has to be a cooperative venture. And I'd like to go on record as saying that we believe banks have an obligation and a part to play. But the banks do not solve the affordable housing problem, nor can the city government—we've just been fortunate to have a leader like Mayor Flynn and calling more from the State government with notable leaders, like Secretary Anthony.

And I think in some ways the Federal Government—I don't want to put all the pressure on the Federal Government. But because of tax policies and maybe direct subsidies the Federal Government has a large role to play. But I don't think the ownership should just be put on the Federal Government.

So this bill here—and maybe later we can get into some of the specifics and technicalities. But I don't think this bill should be viewed as the panacea. And I don't think the Federal Government

or our State leaders should look upon one program. I think it has to be viewed as a series of integrated programs, if in fact it's problems that will be addressed for the long-term.

Representative KENNEDY. I don't think anybody has held out that this is a panacea or somehow is going to answer our Nation's affordable housing crisis. I think that Massachusetts Bankers has taken the lead in many of the issues that are of concern to affordable housing and those who don't have it. And we look forward to continuing to hear from you on those issues.

I do think that it is important, as you and I have discussed in the past, that the whole issue of affordability and the issue of whether or not the banks are going to be active participants as the Federal Government ought to be is a question that we're looking forward to hearing you address.

So now Bob Kargman, from the Kargman Company?

OPENING REMARKS OF ROBERT KARGMAN

Mr. KARGMAN. I'd like to thank Senator Kerry and the Subcommittee for inviting me this morning. It's an honor to once again try to get the ear of government about the desire on the part of many of those in the private sector who really saw the public/private partnership that was actually established under President Kennedy when the 221D3 program was implemented—a partnership which really died, as we all know, under President Reagan.

I would just like to give the committee a quick sense of what it is, looking at the world of trying to use the incentives of government to create affordable housing. I know that when President Reagan killed the section 8 program, we started looking to do mixed income 80/20 deals with tax-exempt bonds in the middle Atlantic States because there wasn't really an 80/20 program available in Massachusetts at that time. And then shortly thereafter, Congress decided that they would put a severe cap on that as well.

I think that if you talk to subsidized housing developers around the country, except for Massachusetts, they are a vanishing, perhaps extinct species, except for those who happen to find favorite consultants to continue to do business.

So I would say that from the standpoint of the private developer who wants to provide affordable housing, I feel less that I was born in Massachusetts and chose to work here. And I would say that if the Federal Government—and we'll get into the specifics of the bill—can keep its ear attuned to how Massachusetts produces housing, I think we can produce housing. I think there are problems in this bill which we can get into, which keep it from being a production program.

Senator KERRY. What do you think are the biggest problems of this?

Mr. KARGMAN. Well, perhaps I misread. Section 315 defines affordable housing, which is fine, as being very low income at 50 percent median income and low income at 80 percent median. And then it says that no projects will receive any assistance that are not affordable housing. And as I went through this trying to say, well, how do we produce mixed income housing, which is what Massachusetts has I think been so sensitive to, since we're not

going to get the deep subsidies, at least that's my belief, that we had under the section 8 program when we have to produce housing which has a market rate component with a low-income and very low-income component.

The way I read the bill—and we can go through the different sections—these funds cannot go into projects where the fair market rent exceeds the section 8 fair market rent. That's how the definition reads.

Another point or problem that I have is that under the section 8 program, where you have a low-income housing project—we manage almost 2,000 units of both fully subsidized and mixed income projects—we have no problem complying in fully subsidized projects with a priority. There are two ways to choose low-income tenants. There is what they call an open-up look see basis and a priority basis.

This bill mandates that 75 percent of all the low-income tenants going into a development would have to be selected on a priority basis, which is really the homeless. And while as I said in our fully subsidized programs, we have no problems whatsoever complying with Federal law. And this is Federal law. That is not the law for mixed income projects.

And I think that if you rented 75 percent of your low-income units to homeless people in a mixed income project which has to sustain itself in the marketplace, it would be difficult for it to survive.

So there are lots of pieces here where we're taking existing language in the section 8 statutes and marrying them to other concepts. And rather than going through it—I could take you through many, many sections—what I'd really like to say is that I think in Massachusetts, both Marv Siflinger and Amy and the home builders and the legislature, and the City of Boston as well has some excellent programs. There are so many programs that keep those sensitivities to how you balance public and private interests to gain production, that we need to take apart little pieces here and there to make sure that one part that accomplishes social purposes doesn't defeat other parts, which gain production.

Senator KERRY. That's a good observation. And I want to follow up with Marv when we get there. Bill Jones?

OPENING REMARKS OF WILLIAM JONES

Mr. JONES. Good morning, Senator, and thank you very much for inviting me this morning. Good morning to all of you on the dais. I am delighted to be here this morning as well.

As a CDC Director in Boston, CDC's have been in recent years in the forefront of developing affordable housing——

Senator KERRY. A little closer to the mike, please. Thanks.

Mr. JONES. CDC's have been in the forefront of developing affordable housing in the city. I'd like to say that the Mayor has declared CDC's his secret weapon for developing affordable housing in the city.

Representative KENNEDY. Could you speak a little closer, Bill? We just can't hear you very well.

Mr. JONES. As I said, as a CDC director, I would just like to say that I am delighted to be here this morning on behalf of CDC's—community development corporations—who have been in the forefront of developing affordable housing, certainly in the City of Boston, in fact in the State.

Massachusetts has some 49 CDC's, which have been primarily developing affordable housing over the past several years. Elements of this bill, particularly those that would strengthen and give priority to community development corporations in the development of affordable housing, as well as what some of the other testimony this morning spoke to in terms of having non-profits be a major recipient of dispositions of expiring use properties, to ensure that residents got priority and got an effort to be heard on some of the issues pertaining to their units.

With respect to partnerships in Massachusetts and in Boston, both Massachusetts Housing Partnership and Boston Housing Partnership I think have proved to be a vehicle for the local communities, as well as non-profit entities and others to be involved in the development and the preservation of affordable housing.

In Boston alone, through the Boston Housing Partnership, we developed some 1,700 units and CDC's. In addition to that, I have probably developed some 1,500 others. I look forward to engaging in discussion around the issue of community development corporations' involvement in affordable housing as we go along. Thank you.

As I read it, I think it does. I think the word needs to be strong because I think the issues of technical capacity building and financial support for CDC's needs to be strengthened.

Over the years, until very recently, I think CDC's did what we called zero bottom line development of housing, which meant that CDC's developed no equity for themselves. They developed no ongoing ability to finance their organizations as they developed housing and had to go back to either the State or the city each year for operating support to develop the housing that they have developed.

I think it's very, very important, be it a long-term operating subsidy for community development corporations similar to what they had in the old I guess title 7 CDC days of some 20 odd years ago, or something like that which would ensure that CDC's are around for a while.

One of the things that I think we have to be sure about is that as CDC's go forward and sign 20 and 30 and 40 year mortgages with the Federal Government of MHFA or both, that we're ensuring that the CDC based operation is going to be around 15, 20, 30 years out to carry out the obligations that they are signing up for. And I think the bill speaks to those issues. I think we have to make sure that those issues don't fall out as the bill goes forward.

Senator KERRY. I want to come back perhaps to that because it raises some interesting questions that Doris Bunte may want to address also in terms of those relationships. But Bill, why don't you——

OPENING REMARKS OF WILLIAM APGAR

Mr. APGAR. Thank you. My name is Bill Apgar, and I am the Acting Director of the Joint Center for Housing Studies at Harvard. And as was noted, we recently issued a report called the State of the Nation's Housing, which attempted to document the serious problems of housing that face Americans.

I just want to make a few comments in reacting against some of the things I've heard at the hearing and testimony so far. Being in Boston, of course, it's obvious that we focus on the very high cost of housing and the difficulties that it creates. But the truth of the matter is that the declining home ownership rates that you mentioned are problems in all regions of the country. Home ownership rates are not just a problem of the hot growth areas, but also home ownership rates are off in the midwest and in the south and whatever. So while they are peculiar problems here in New England, this is not a uniquely New England problem. And I think we cause ourselves problems if we make it seem that this national problem is particularly a New England regional problem.

The other thing that I am struck at is that we hear such eloquence as provided by Sarah and our other guests this morning. And for each statement they made, our report provides the fact that backs it up. Yet, despite the eloquence or the rhetoric, despite the sort of documentation of these statistics, housing continues to fight for attention on the national political agenda. It's something that really baffles me.

My only explanation is that in some sense our Federal programs, our supportive housing missions over the years—I'm talking over the 40-year program and 30-year period—have done such a good job at promoting home ownership and providing decent housing for a lot of folks, that many people think the job is done. And they are sitting off in their house in the suburbs perceiving that there is no housing problem.

And so the effort we face is how to remind people how programs in the 1940's and the 1950's and the 1960's, the FHA programs, the tax incentives for housing—all the things that people consider as a part of their national right—have in fact produced the housing outcome, which now makes us so inattentive to the remaining housing needs of the country.

Now, the last thing I'd like to talk about is a little about this HUD crisis. Our own particular problem, of course, was our report was about to come out. And all the reporters wanted to talk about was not about how do we address the problems that face the country, but how to deal with this enormous and overhanging HUD mess.

How do we fight through this very bad publicity and remind people that, despite the fact that these programs were mismanaged, many people were still well served by the programs. And we still have a need for further Federal level activity. And HUD has to be part of that solution.

I think it's critical that the committee continue to work on efforts to restore essentially the trust of the American people in the basic housing delivery system. And that trust was shattered. Efforts by States and localities and community-based groups, which I

would suggest largely have earned that trust—especially here in Boston, where the programs have been so successful—can in fact be the basis for restoring trust in the fact that money sent out from Washington will in fact find its way to the low and moderate income recipients.

And that's the role that the non-profit sector can play. A critical role. It's especially needed now in this period of lacking trust in our basic government institutions.

Mayor FLYNN. Bill, somebody like yourself who has a focus on housing on the national level, there is one curious point that I have. Maybe you could help address it. Why is it, for example, that programs such as Bill Jones talked about and Bob and people here from Boston and Massachusetts, Amy, talked about in terms of the unique public/private partnership that exists. For example, our housing partnership with unions, CDC's, community organizations, State and local governments, State and city government working together.

It seems like in the business community—banks and insurance and lending institutions—it seems that it would just be such a model kind of republican proposal that would be right up their line of philosophy. And why hasn't that been replicated on the national level? Why hasn't it, as Joe Kennedy has introduced with other colleagues in the House and Senate—why hasn't that received the kind of support in a Republican White House over the past several years?

You would think it would be exactly the type of program that matches the Republican rhetoric of that partnership. They seem to always agree with the theory and the concept. And where they stop short is on providing the resources and block in these kinds of legislative efforts.

Do you have any understanding as to why? Am I missing something? Aren't these partnerships very successful? Aren't they perceived as very successful? And if they are, then it's not asking the Federal Government alone to build housing. But the State and local governments working with the Federal Government in unions and CDC's and banks and insurance companies, and all being part of not just the local problem, but a national problem, everybody working together. Do you have any thoughts on that?

Mr. APGAR. Well, I do share this observation that there is a certain appeal to a more conservative business oriented type of individuals, these programs. And a lot of the programs are built on community self reliance, on people helping themselves to improve their own situation. And so there is some appeal.

I myself have witnessed the miracle of Mr. Rouse, speaking of business groups across the country, and in fact he does get at least at this initial gut level a response, that in fact local partnerships do strike a response.

I think the problem is we need to continue to nurture that. Why is Massachusetts unique, and why are other States having difficulty to follow us? What we only have to recognize is that Massachusetts has been in this business for a long time. At every stage of major national housing legislation, from the early public housing through the current, Massachusetts was running a little bit ahead of the national curve. And so I think we're doing that now.

But I think it is hopeful that groups like this are springing up all over the country. And what you need is appropriate Federal support through technical assistance and the type of bill Joe is mentioning and others to help these local initiatives grow and prosper.

And I do think that if you have competent community-based groups working with local officials, that the business sector will participate in a variety of contexts. You just need those organizations to get going and get started. And so there is a mixed message here. It's not easy. We've been at it for 50 years in Massachusetts, and we're still struggling to expand this because the other States are way behind. But it is doable, and I think it is the way to move.

Mayor FLYNN. Do you think it's merely the fact that Members of the Congress don't understand the secret missile that we have here in terms of community development corporations, and they just don't have the professionalism? Is that what maybe the case is as they are here in Boston and in Massachusetts? They don't have the active CDC's or the confidence of various Federal officials?

Mr. APGAR. It's at all levels. Not all States are as sophisticated as our State level officials. Many States have yet to take on the challenge, for example, through State housing finance agencies of operating significant multi-family programs.

So at the local level, not all the—is sophisticated. And so if you asked the question, where are we today in a lot of cities, the answer is, there is a lot of cities quite frankly that don't have the capacity to operate programs of the type we can operate here.

Does that say we can't build that capacity? Should we develop programs and encourage the growth of those initiatives? And the answer is, of course. We can replicate this activity elsewhere.

Ms. ANTHONY. Can I say there too that in my experiences that I have here in the level of interest in other States and local areas where the funding for housing is building, the interest they have in what's happening here in Massachusetts is extraordinarily strong. So that for those who really want to do something about their housing problem, there is a strong—in learning from what we do here. And I think the problem at the Federal level for the past 8 years is there hasn't been a desire to do something. And unless there is that desire, then you don't look for the best way to do it and in fact defeats the——

Representative KENNEDY. I'd just like to make one comment with regard to what the Mayor was bringing up. At least my experience in the Congress is you've got huge areas of the country that don't even view this as a crisis.

You go down to Texas or the southwest. The fact is, they've got the exact opposite problem. They have too much housing, as we've read about in the newspaper. And certainly you've heard about the Banking Committee.

Barney and others have tried to come up with some innovative approaches to having non-profits participate in the savings and loan crisis. For instance, they can have the option of purchasing some of those distressed properties down there and the like.

But if you take even Chicago legislators, Democratic—good Democratic legislators from the Midwest. They view these programs as—there is a whole group of working class neighborhoods that don't want these programs, if the truth be known. And in

those instances, you don't get the support of the Democratic Congressmen.

So there is a whole group of people out there that we ought to be expecting support from in Washington that, when it comes down to affordable housing, it just isn't there. And it's a terrible, I think, indictment of the notion that somehow or another we all look out for one another because that's not what occurs so many times in Washington, D.C.

We ought to be recognizing that simply by putting forward the interest of one particular region of the country, that that does not necessarily hurt other regions of the country. And if we in particular areas, whether it be in Boston, New York or San Francisco, needed some help on affordable housing, that should not be viewed, I don't believe, as an indication by the people in Chicago and Texas that they are losing because we can provide some dollars for affordable housing. But right now, that's the way they view it. And that's what we have to shift.

And that's what I hope people like Sarah and Mary and George are going to be able to do on October 7th when they come down to Washington, D.C. Because you're right, Ray. These programs do work, and you've demonstrated it and so many of the people in this room have demonstrated it. We've got to take this experience and get it out to people so they aren't threatened.

And just one last thought. 125,000 units of affordable housing have been built by non-profit housing development corporations. 631 organizations exist around our country that have done this. So there is no lack of experience. Most of them happen to be in Massachusetts and in Boston, but—[laughter.]

But the fact is that we've got to expand that universe and demonstrate clearly that this is a viable way of doing business. And I just hope that we're able to get that message across in that particular day, on October 7th. Thank you.

Senator KERRY. Marv, we're going to come back to this, I know. But let's pick up from you and then Doris, and then we'll open it up a little more.

OPENING REMARKS OF MARVIN SIFLINGER

Mr. SIFLINGER. Well, John, that's a point I want to make. And I think Joe really hit it on the head in a sense. When we talk about the lack of support.

I think we all have to understand in a very fundamental way that those people who are opposed to housing and have been opposed to housing are very bright. And they have taken steps to assure that the low and moderate income constituency could not get together. And they have taken steps to demonstrate in a self-fulfilling prophecy way that this kind of housing doesn't work.

Therefore, they do what they do at Grant Manor, and the Reagan Administration did not support developments like that. So that people in these working class districts across the country, in Chicago and elsewhere and in Boston, can say you see, here. This kind of government-assisted housing doesn't work. And let's look at public housing. And let's look at old Columbia Point. And see? That doesn't work.

So how in the world can we rebuild those constituencies when you have people on the other side who are saying, let's maintain people in this depravation. Let's assure that the housing doesn't work so that we can do our other things. So that we can build that space station, and we can take money away from housing because isn't that where our priorities are to be, ought they not to be in defense, et cetera. It's a very shrewd policy, and I think we have to understand that.

That's why it's absolutely critical that the current of success that we've had in Massachusetts—and I think Amy started it with the Governor about 5 or 6 years ago with the SHOP program with the HOP program. Over 11,000 units of assisted housing have been built in Massachusetts, principally with State support, and streaming State resources because of this kind of partnership and leadership that has been shown here.

Senator KERRY. Marv, just for the sake of it, I keep hearing partnership. And every time I sit at a hearing in Washington, we have public and private partnership people. Why don't you flush that out a little? Give it a little more meaning. What are the essential ingredients of the public/private partnership that make it work and that are included in this bill or ought to be if they are not?

Mr. SIFLINGER. I think they are essentially included in the bill. The lessons we've learned are exemplified in the Boston Housing Partnership, which Ray is so familiar with in Boston. Amy created the Massachusetts Housing Partnership with the Governor. And it's essentially the same elements. Let's get those people who can produce affordable housing together—non-profit organizations, for profit developers, business leaders, municipal leaders, State officials, Federal dollars, those few dollars that are there, assistance from the Congress, mortgage revenue bond program, tax credits, et cetera. Get them together and cite specific issues and provide housing.

We've got to create the environment. I think if there is one point that can distinguish Massachusetts from so many other parts of the country is, at the State and city and town level in Massachusetts, we have created the environment that has resisted the so-called Nimby attitude—not in my back yard. Not to say that we are heaven on earth here in housing. We're not. There's still a lot of resistance, and certainly affordable housing is an issue.

But when you can get people to work together in this way and provide the incentives and to get them to focus on the economic issues that we heard from our banker friends, if you don't have affordable housing, then you're not going to have economic expansion. And your children can't live in that city or town.

Senator KERRY. Now, to what degree can you formularize that structurally in the bill—I mean, I realize in the bill what we've got is, we have created this shelf of model programs. And you've got the model program sitting up there. And people can come in as they must with their programs that's going to get a sign-off by HUD. And they can choose from the model programs.

But to what degree can the model programs be sort of transferred and formularized to another State? And to what degree do they depend on Amy Anthony and Marv Siflinger and the other key players whose intellect and demeanor and everything else is

motivated towards making a decision? What do you do in those less than likely places?

Mr. SIFLINGER. Amy, you're so anxious to answer. Why don't you give it a shot? [Laughter.]

Ms. ANTHONY. I think the model programs can be very helpful, Senator. But the environment has got to be created by the State and local team. They are the ones who can make it happen at the local level, irrespective of what program or design you articulate. The flexibility, I think, allows some modifications at the State and local level.

But the critical thing that the structure of the bill does is to provide for significant roles for States and for local governments in assuring through the way the leverage of the money works, that there's got to be participation and contribution at the local level and at the State level. That's the key thing that turns their energy into working together to make the houses happen, I think.

Mr. SIFLINGER. I would agree with that. I think that's the key. You've got to have the environment. You've got to have the will, and you build on the success. Part of it is the point that Bill just made, and that is the history of Massachusetts is to be very proactive.

And Amy and I have travelled around the country a lot within respective organizations that we belong to. And we see that many of the programs that we developed here in Massachusetts have been copied around the country. And that indeed is the highest form of flattery.

And essentially in this bill, we seek the ability to do that. We wanted such new—there are so many things right with this bill, if I may. I would just get back to the point that Bill Kargman made that concerns me a little bit.

I don't think we can duplicate the SHARP program—the essence of mixed income housing in the bill. I think that one of the reasons we have been able to provide housing for low-income families through SHARP is because of the mixed income approach. I'm concerned—and maybe this is just a technicality that we can work out through the staff—I'm concerned that even if we modify the SHARP program to some extent, which Amy and I have been talking about for a while, that SHARP as such would have some difficulty in working under the HOP concept.

We think it strengthens the low-income objectives that we have when we provide mixed income housing as one way to provide housing. There are obviously many other ways to provide housing. The Mayor just left, and we're working with the Mayor to develop a limited equity co-op program with the Boston Housing Partnership in the City of Boston. That would be for low-income home ownership. It's a great idea. I think the bill will help us in that regard. But I think we've got to look at that one little technical defect in the bill for mixed income housing.

Senator KERRY. Well, we can certainly do that. And I know you'll work with the staff. And we'll see what we follow up on that. Let me turn to Doris Bunte, who has been waiting patiently. I know she has a number of concerns, the least of which is the bill's perceived attitude with respect to public housing. And I'd like to ask you, Doris, just to kind of react to the comments you have

heard thus far, as well as just articulate your own concerns, which I know you have come with.

OPENING REMARKS OF DORIS BUNTE

Ms. BUNTE. Thank you Senator Kerry, Congressman Kennedy, and Secretary Anthony. I am really pleased to be here, and I think that it says something about your support, each of you, in terms of public housing to have allowed me to sit here today as well as Sarah Flint. And I'm really happy to join her here as a participant.

You know, you seem to be on a roll with regard to the bill. And clearly I have, I need to reaffirm that for just a minute because there are a couple of things I just really feel like I have to say.

I am the Administrator. My name is Doris Bunte for the record. I am the Administrator of the Boston Housing Authority, where we house more than 60,000 tenants in total. We recognize that public housing today is not new and cheap and shiny, and we understand that. But you know, we need you to help us get the word out because the best kept secret of the Eighties is that public housing in Boston and across this Nation is alive and well. Yes, we're getting older, and we're getting better. And I need that to be out there to begin with.

My concern about the bill specifically has to do with the fact that we appear to be unmentioned. As I said, no we're not new and bright and chic and shiny, but we are important. We are important to the 14,000 households on our waiting list. That's not 14,000 individuals, but households as well as 60,000 residents in the City of Boston. They think we're something to take note of.

Across this Nation, Senator, as you know, there is approximately $80 billion dollars in public housing. And the value of the public housing stock in Boston alone is close to $1 billion. And I believe that's a public investment worth protecting.

We in this bill—and we are supportive of the bill in terms of the concept. And I also want to say that we are impressed with the efforts of your committee to try to get input from everyone. I mean, in this region I'm hearing along with the papers from MIT, that process, you've taken—the committee has done wonderful in terms of trying to get input. And we're pleased about that.

We want to be explicitly named as an intended eligible recipient. We have a history of providing housing that I think, if you take a look—and I'd be happy to take anyone here in this room today on a tour so you can see the clear linkage between the work that you've done at the Federal and State level and what it has meant to public housing. And I simply want to say that we have a record that we think is good enough to be included specifically, explicitly in this bill to ensure that we get some portion of it.

If there's going to be $3 billion, then it seems to me that it shouldn't all go to just a new entity, but why not some to a tried and true entity. If there is $3 billion, I believe public housing ought to be at the top of the list to get a share.

And I'll just stop there for a moment. Thank you.

Ms. ANTHONY. I just wanted to mention, Doris, that certainly in the blue versions of the text which are—it is very clearly understood in a sense as a group that public housing authorities would

be active participants and in fact, we're depending on local circumstances. How much of the leadership would be theirs, but that they would be very actively involved.

I think the notion of which entities deliver housing at the local level is opposed to the function of the bill's proposed home corporation, which is seen, I think, as a coordinating mechanism to really help the people at the State and local level get access across a range of HUD efforts. I don't think it was anticipated that that would intend that public housing authorities not be active participants, but I'm not familiar with the details.

Ms. BUNTE. I just want to say that certainly the interpretation that you indicate is there. But it isn't as explicit as it needs to be. And I think that by not explicitly mentioning us may very well be harmful in the end.

Senator KERRY. Well, when you say explicitly mention you, in which version there is, as you know, the reauthorization of modernization and rehab monies in the bill.

Ms. BUNTE. Yes.

Senator KERRY. There is also an education and job services portion for tenants with children. And then there is something with respect to new projects but including the restriction of size. I mean, there is a specific section as to public housing.

Ms. BUNTE. Again, it says—it doesn't preclude us, but I don't feel as though it clearly includes us. And let me just say that we do what no one else does. We house all of the very poor. And I think that's a difference. And so for us to vie with everyone eligible in the pot is not good enough. And that we really need a more explicit piece identified for public housing.

Senator KERRY. Marv, do you——

Ms. BUNTE. And we are the only ones, excuse me, mandated to house poor people. Thank you.

Senator KERRY. Do you have any response, Marvin? Or any—if not, that's fine. Let me ask our banker friends if I can, what benefits and limitations do you see with respect to the 401K and retirement accounts being used in this process?

Mr. POLLARD. We see that as a benefit. Of course, one of the difficulties is that it does tend to get people a little higher on the income scale and doesn't do a lot for the lower income people who probably do not have an IRA or a 401K to begin with.

The whole IRA/401K question gets to the issue of the tax laws and the changes in the tax laws that continue to discourage savings. And one of the problems you have in this country is that this country doesn't save enough. And therefore, HUD is not in itself building an equity for its housing stock. So anything that could be done along the lines of encouraging savings from a tax point of view, we would see it as a real plus. And we think it would add the availability of housing.

Senator KERRY. Incidentally, I don't think we should be bashful. I mean, we've got George Holbrook, who currently falls into a different niche than other people who were addressed in this bill. And obviously, what we're learning is that the housing problem today is not a low-income problem. The housing problem is an elderly problem. It's a middle income problem. People who thought they were

at the middle level and able to buy are now being pushed into a different category. It's a young person's problem.

Mr. POLLARD. I might add, Senator Kerry, I have two sons. They both live in New Hampshire because they can't afford to buy houses in Massachusetts. Neither of them had a down payment, so obviously they are provided them.

Senator KERRY. Are there any other incentives that—are you familiar with the plan that Joe referred to that I have put forward? What's your reaction to that?

Mr. POLLARD. Again, it encourages savings. It puts people in the position where not only are they saving for a house, but they are also in their own mind making a decent investment because of the tax-exemptness of it. And I think anything that pushes you in the direction of encouraging savings is going to help the housing stock.

Senator KERRY. Do you have a concern to that?

Mr. POLLARD. No, from a banker's point of view I don't.

Senator KERRY. Bob, what about you?

Mr. SHERIDAN. No, Senator. But the only two issues that are not contained in the bill—but I think it's relevant——

Senator KERRY. I want you to feel—listen, there is no restraint here. If you want to jump in and say—you don't need to be called on. So if you have something you think somebody else said earlier that you want to respond to, jump in.

Mr. SHERIDAN. I guess the——

Senator KERRY. Just identify yourself. I think the recordkeeping—you're doing all right? Okay.

Mr. SHERIDAN. Bob Sheridan from Massachusetts Bankers. We have learned that in banking and the debacle with the savings and loans——

Senator KERRY. Please speak up a little bit.

Mr. SHERIDAN. We've learned in banking with the debacle with the savings and loans which we have both been involved with trying to fashion a solution, that you can't lose sight of safety and soundness in banking, and we recognize that.

But saying that, the capital guidelines—uniform capital guidelines that have been promulgated by the regulators, as drafted, they will provide a disincentive for banks to get multi-family housing. We believe that whatever the down payment would be, it would be up to yourself and the Congress working with the regulators. As long as you provide a minimum down payment above a certain amount, we think that can be a less risky investment than junk bonds or whatever you want to say. So I guess that we would ask that somehow that issue should be looked at because we don't think we should have a disincentive to invest in multi-family housing, which can be a good investment.

And I guess second, we would—this whole issue which we always hear about is this secondary market. And from time to time people view the secondary market as operating almost like Moses. That on occasion they come down from the mountain with tablets. And we think there should be more flexibility in some of the secondary market standards. And I cannot tell you what they should be, but it seems to me there should be some kind of a process developed between the Congress and the regulators and the industry and

some housing activists to balance the need to provide monies for housing, and also to have safe and sound practices.

Mr. POLLARD. I guess to echo what Bob says, especially on the carpet requirements, under the new legislation that goes into effect in the not too distant future, you only have to reserve 50 against single-family houses. But multi-family houses get the same reserve that Argentina does in the bank's portfolio. And it just seems to me that they are missing something. And you may think about that.

And the question of the secondary market. It's become true over the years that more and more thrift institutions and banks in Massachusetts have been selling their mortgages. And we have to use whatever guidelines the secondary market provides. And it's especially—in the question of how much income the supplier can support a mortgage.

And we can look now in the single rental areas of the city where people can't afford housing and look at the fact that they are providing maybe 50 or 60 percent of their income for housing in rental payments. And they would easily be able to make a mortgage payment of a lesser amount, including the interest. But the standards are such that—we're talking in the area of 21 percent is all they're going to allow you for a mortgage payment.

Representative KENNEDY. Dick, if I could just jump in. We could spend a lot of time on what's in the S&L bill and the like. The purpose of today's hearing is really to focus in on the housing needs of the country, which the S&L bill will deal with to some degree, not as much as some of us had hoped.

But the fact is that there are some differences between the Senate and the House versions in terms of our approach to affordable housing. One of the areas that I think people in this room are very concerned about—I have talked with many of you individually about it—is the whole area of expiring use. And I talked with members of the Kargman family that have been working to provide affordable housing to people in this State from a private perspective for many, many years.

And it just seems to me that if you're in a situation where you've got limited resources, that right now you've got a situation where, depending on who you talk to—you talk to Jack Kemp, and he's going to say there are only 50,000 units at risk. You talk to others, and you get a number as high as 1.6 million units at risk.

The fact is that if you take some middle ground and say there might be between 150 and 450,000 units that potentially are going to be eliminated from our Nation's housing stock of affordable housing, that is probably the most significant number that we can focus on. In other words, that's going to retain the cheapest—if we look at how we're going to retain the greatest number of units for the least amount of money, [illegible] in expiring use.

And the question is—we have in the past, the Senate—D'Amato actually a couple of years ago came up with a very tough response, which was to simply slap on a moratorium and say that no landlord is going to be able to throw the tenants out, prepay the mortgage, and be able to get away with it.

Now, that's 2 years old. You've got a new administration coming in. This administration, I don't believe, is going to change signifi-

cantly in terms of their response by suggesting that they are going to continue a moratorium. They want to hear what the private sector needs in order to keep these units in.

So I'd just like to hear from Bob Kargman and maybe Marv or Bill or anybody else that has an interest in this how you think we ought to be proceeding to keep the amount of dollars down to a reasonable level in order to keep these housing units going or recognizing that the Senate Republicans took the most aggressive stand, which was to slap on a moratorium. And as Barney would say, he can turn that into a moratorium if necessary.

Mr. KARGMAN. Well, as you mentioned, Congressman Kennedy, my family has been in this business a long time. And I would like to defer on parts of your question to those members of my family who are actually across the hall—they are with a separate company—as they face the issues of expiring use projects.

I would like to sort of make a pitch, though, in the Congressional world once again for sort of Massachusetts and the credible talent in the housing area in this State. And let me give you an illustration of why I'm saying that when the House looks at what the program ought to be, why it ought to keep in touch with the chief ballplayers in Massachusetts.

Let me use another issue before I get back to expiring use. We have a fabulous statute—the only one in the country and an extraordinary statute on the books in Massachusetts—which provides that 10 percent of the housing stock in every city and town has to be in low or moderate income housing, or that community is eligible for having a zone override petition by a limited dividend or non-profit or public agency to build affordable housing in that community. That statute has been on the books a long time, and so long as they were building predominantly elderly housing in the suburbs or housing in the major cities of the commonwealth, it was not all that controversial.

When the State decided that it would go into a mixed income home ownership program—the HOP program such as in Lincoln, which is one of the few communities where they actually didn't have to use the comprehensive permit process because Lincoln was for it, but that's rare. And certainly with regard to mixed income rental housing, there is a tremendous anti-growth and anti-affordable housing sentiment out there, even with all these housing partnerships in place.

What happened was, there was a move in the legislature to do something drastic and dramatic, based upon a ground swell of public sentiment that this is a bad statute, even though it has been there for 20 years. And I would say through a very delicate process really of Amy's office and Marvin's office of working with the legislators, a commission was established. This commission came out with an initial report for having hearings all through the summer. People are going to stick around for July and August because it's such an important issue. And I believe that we will address the concerns of balancing community's desire to sort of not be inundated by affordable housing projects, and the need to continue building affordable housing in the suburbs.

Likewise, Massachusetts—Amy's office really spearheaded the whole notion of a cooperative basis. She basically got a consent

agreement from almost every subsidized housing developer in the State that they would not move ahead on expiring use deals without being tied into State programs. And her club was that the State legislature was about to impose a statewide moratorium, regardless of the Federal Government.

I think your help protected the country's supply, and I think that was really an extraordinary effort on your part. But Massachusetts was going to do it on it's own.

And so I would say that what needs—balancing interests is a very difficult thing. And you need a lot of sensitivity and a lot of very good people. And I think Massachusetts has created a model in having non-profits, private developers, and the State mediating a complex process for how we keep this housing—low and moderate income—in perpetuity, while the contracts which were made 20 years ago, which those who wanted to produce affordable housing relied upon, and those who want to produce affordable housing in the future rely upon as an incentive to stay in business. Otherwise, they can go into less regulated businesses with less of a social purpose.

So that balancing——

Representative KENNEDY. On the other hand, Bob, at least the numbers we get in Washington indicate that the landlords that entered those deals have had an average rate of return of about 27.5 percent before you even get to tossing people out. So I'm not sure that you're going to lose a lot of people simply because you trimmed the potential benefit. I'm not sure of that. You know, I think it's an open question. 27.5 percent money is good money, as I'm sure the bankers go along with. I think they've got a fairly hefty incentive already.

Mr. SIFLINGER. John, can I make a point?

Senator KERRY. Absolutely.

Mr. SIFLINGER. With regard to the issue of expiring use and generally throughout the bill, I would offer one criticism, which I'm sure you have all heard before. In terms of providing the housing, whether it be expiring use or new production, we don't see the link between the direct production programs and the tax writing committees. And Joe mentioned Congressman Rostenkowski, who has been very tough on this issue.

But without that kind of link, without the tax credits—and by the way, there are some inconsistencies between the tax credit bill that's in the Congress and this bill. And those inconsistencies I think should be cleared up. We have already presented testimony through the Council of State Housing Finance Agencies to address those issues.

But Senator Riegle's bill that offers capital gain exclusion for owners who sell to non-profit organizations is absolutely critical. And I think that's one very helpful method. I wouldn't exclude for-profit developers as part of that if we're assured, for example, that the low and moderate income usage can remain in perpetuity to change that Amy and I made in the SHARP program about 2 years ago, it's really working. We don't have to revisit this issue every few years. Let's keep those units in low and moderate and put——

Representative KENNEDY. How do you do it?

Mr. SIFLINGER. Well, you do it by assuring that there are sufficient incentives on the front end so that the non-profit developer or the for-profit developer can assure such use in perpetuity. It's a combination of——

Representative KENNEDY. So you're talking about new production?

Mr. SIFLINGER. New production, or even in recycling the units that are there. You can do it either way.

Representative KENNEDY. You're saying that in order to recycle—just so I'm clear about the problem. You're saying that in order to recycle the units that are there, you need the cooperation of the Ways and Means Committee and the House Compliance Committee in the Senate?

Mr. SIFLINGER. You bet. If you don't get their cooperation, Joe and John, it's going to cost more of the dollars that's in this bill——

Representative KENNEDY. That's right.

Mr. SIFLINGER. Because you're going to have buy out the limited partners. And the way that we've done it with success in the past 20 years is by assuring that their tax is limited.

Representative KENNEDY. And you see, the way that—at least on the House side, I don't know how it works in the Senate—what Rostenkowski's reaction to that is, listen, there are a lot of programs around this country that serve a good social purpose that have the support of a large number of people of the country. But basically, they take away dollars from the Federal treasury. And the Federal treasury is running $200 billion deficits, or $150 billion—whatever number you want to pick. If you want to be realistic about what they are, or if you want to pretend what we do in Congress, pretend they're much smaller.

The fact is that he is sorting setting up at the witness test, saying if you can get enough votes for whatever particular benefit that you want to provide—whether it's in housing or health care or education or anything else—then you have to be able to get the support of a massive number of Americans to the point where they're going to have either their income taxes raised. They're going to have other taxes raised in order to offset the tax benefit that we're going to provide this specific industry.

And since I have been there, there hasn't been one industry that's been able to jump the hurdle. And so I don't know—I mean, they're talking about the capital gains. I don't know what you think, whether that will work, John. But that's sort of the one that they're playing around with in the House. They think that maybe they've got enough votes on that to be able to offset. But I don't——

Mr. SIFLINGER. I'll give you blank testimony, based upon our experience in working with Rostenkowski's saying. You go to them one day—this is especially true in the mortgage revenue bond extension program—and then you get X cost of the program. You go to them 2 days later, and they jump the cost—by twice the amount.

By the way, and I said this directly to Rostenkowski in a meeting, if we're going to deal with these tax writing committees and particularly Mr. Rostenkowski's staff, they ought to play fair. And

we ought to be able to fix a cost, an off budget cost, for this housing and not play games with it.

And to be very blunt, I think there is some game playing going on now where they jump the cost of that housing in an unfair way. And those of us here are suffering from it because they claim that they know exactly what the cost of this housing is, and they manipulate those figures.

Representative KENNEDY. That would seem to me, Mark, to be a good role for the Housing Committee to play. In other words, if we're talking about issues of injustice that are taking place—asked them over to Ways and Means and put forth that testimony that corrects those injustices in a very specific way. Other than that, we're going to be talking in one direction, they will be talking in another, and we just don't end up winning.

And there have been too many losses for people like Sarah and Mary and George in the last 10 years to continue this. So I think you've got to someday, all the people who are listening, we've just got to confront these issues. Because they are ducked too many times in Washington.

Mr. SIFLINGER. Well, new question. And I think that's an excellent suggestion. And I think the other point is that if you unfairly estimate that this housing costs too much, then you're not going to have enough money to address the points that Doris made about the desperate need we have to modernize public housing and to assure that there are more dollars in the bill to realistically revitalize our public housing developments around the country and assure that people are living in decent housing, publicly assisted housing.

But that's one game that is played that really must be addressed. And I know that you and Senator Kerry are on the Authorization Committees. And it's absolutely critical in my opinion that you put pressure on the tax writing committees to give you fair estimates of what the cost of these programs are. Because you're not getting it right now.

Representative KENNEDY. Do you find that's true, Senator Kerry?

Senator KERRY. It's an interesting—well, we really haven't gotten to the point of getting that kind of confrontation that you have had with Rostenkowski. And I can't speak to whether Bentsen has produced the same anomalies. I don't believe so.

Mr. SIFLINGER. No. I think they have been very fair on the Senate side, but I don't think so on the House side.

Senator KERRY. Marv, from your perspective, what is the least expensive way to deal with the expiring use piece?

Mr. SIFLINGER. Well, as a matter of fact, I think——

Senator KERRY. And there may be a difference between least expensive and politically palatable. I understand that. But just give me the least——

Mr. SIFLINGER. Well, it's going to take a number of solutions and so on. But as a matter of fact, Secretary Kemp has proposed that we use the tax bill to provide incentives for both expiring use and new production—the enterprise zone and so on.

So I would agree with him that we can as we have before with success use the tax bill. I think that's absolutely critical. I also feel

that one of the major issues we must decide, you must decide in this bill is, what is a fair price for the owners, for the present owners?

Senator KERRY. The use of the tax bill essentially passes on to a new set of voters the same benefits you had before, and so you are foregoing your future revenue. That's the theory, correct?

Mr. SIFLINGER. Well, I think we could work that out if that is an issue because what we're looking to do now is to reduce the capital gain tax hit on the present owner. We can do that through a rental——

Senator KERRY. I agree. But my question is, would there be some way conceivably where you have somebody, one set of developers who have reached their 20-year period and they say we want to sell, no matter what——

Mr. SIFLINGER. Yes, sure. We do it in the HOP program in Massachusetts. The Home Ownership Program that Mr. Holbrook is part of. He has a deed restriction on his property in which the public and Mr. Holbrook share in the appreciation of the property. And we can do that. We can use that concept in multi-family housing to assure future affordability. It's a concept that works. And as a matter of fact, Congressman Donnelly has made such a proposal with regard to the mortgage revenue bond program. So it's been actively discussed. I think it's a good idea.

Ms. YEATON. Senator Kerry, maybe I can provide you with some of the figures that our developers are now getting to show you the relationship as to what would happen between what is going on with Grant Manor and—as compared with what's going on with——

Senator KERRY. I would be delighted. That would be helpful. Marvin, you referred to the Home Corporation's ability to be of assistance. Do you see that as really streamlining the process and creating the one stop that it's supposed to?

Mr. SIFLINGER. I do. I think it's absolutely essential. I think it's fundamental to revitalize the Housing and Urban Development Department where the Secretary can bring in new people, professional staff.

Previously Bob Sheridan mentioned the credit facility. It's absolutely essential that we all get help in the credit markets. Just this past Friday Don Campbell of your staff chaired a committee at Freddie Mac in Washington with a number of people to develop some ideas so that the credit piece can be developed in a realistic way. If we can't go to the credit markets, we can't build affordable single-family and multi-family housing.

The second issue about the home corporation is that it can be an entity to allocate resources in a fair way. Let's get away from that kind of discretion that invites scandal. We've seen it too many times in the past, and if HUD can develop a mechanism, an allocation mechanism—and by the way, this may sound self serving, but we have it here in Massachusetts. In our SHOP and HOP programs we have the competition. There is Outreach. There is a fair method of distributing these funds.

It's no secret to HUD because when we came over from HUD—as you know, I came over from HUD in 1983. We followed the HUD system that was in place in prior administrations, and we refined it

for Massachusetts' purposes. And we believe that this led to a fair allocation of resources. And HUD is using that very same system in its 202 Elderly Program. So it's not that they didn't use it. And hopefully we'll get back to that with the home corporation.

I might say one other thing, if I may. This is particularly, I think, important to the Grant Manors and the Granite Properties and all that we have here. In your prior testimony you heard how essential it is for us to develop mechanisms to bring tenant participation in the HUD disposition process, and in the sale process, the creation of neighborhood and tenant co-ops that will own such housing. I would support that.

In Massachusetts we have created the Inner-city Task Force, which is another one of those partnerships that works. I think the distinguishing factor in this partnership is that it is driven by the tenants. The tenants of the Granite Properties were the principal force in identifying the issues and the problems.

We have on the public side put a lot of money into neighborhood revitalization. Unfortunately, we have wasted hundreds of millions of dollars in the past. It's about time we learned from our mistakes of the past. It's about time we brought into the process the people who are living in the housing. There is an unbelievably high level of skill and expertise amongst the resident participation. If we can bring—we're doing this through the EOCD at the Granite Properties. If we can bring the residents into the process, we have a better chance of identifying the issues that prevent decent housing from being developed and maintained and assuring that in the long run, that housing would be put into the 1949 Housing Act, decent, safe and sanitary housing that residents can afford.

Senator KERRY. During the course of Sarah's and Mary's testimony, I think both of them but I know one of them referred to the money spent over the years. In earlier comments, somebody talked about the degree to which we're paying for HUD properties several times over, in many ways. Some of the subsidy efforts have done so, versus the nonprofits, who create the State that you're talking about and the kind of involvement that is not moving away from the project after it's in place and distant from it.

Given that fact, and I ask this of anybody here, should this bill be doing less or more? Or what is the appropriate mix with respect to the private sector involvement versus the non-profit community efforts? And is there something to be learned in the increasing disparity between cost and provision of service between those approaches?

Mr. SIFLINGER. May I just take the first shot, especially with regard to your last question? We have seen in the Boston newspapers over the last week or two an outcry over the costs of such affordable housing. We see where some people are saying that the Granite Properties—the rehabilitation of the Granite Properties cost too much. Where the Harbor Point development costs too much.

I would say that is ridiculous. That kind of irresponsible comment does not demonstrate respect for the tenants, the residents who live in this housing, and is not realistic in terms of what the needs are. The housing that is being provided at Harbor Point and in the Granite Properties realizes for the first time that we must

provide security for the tenants. And it also recognizes that tenant services must be provided.

It further recognizes that at the Federal and State level, we must indeed rehabilitate the units in a first class way. We cannot do as we have seen in the past. We cannot skimp on the cost of repairs and expect the housing to be maintained in the long run.

Housing in Massachusetts and elsewhere around the country is expensive, and I would assert—this may sound like an extreme statement—but those people who make irresponsible statements about the cost of housing don't know what the hell they're talking about, and they ought to look at databanks that we have at MHFA that show what the real costs of this housing is.

Senator KERRY. Bill?

Mr. JONES. I would just echo much of what Marvin says. And when you talk about partnerships, I guess it's indicative when Marvin is taking the non-profit lines and using them for himself.

But I think to the issue of non-profit versus private ownership of expiring use properties, there are a number of responsible private landlords and owners in Massachusetts, and I suspect throughout the country. And I think we need not ignore that. But I think that there is something to be said for non-profit organizations and cooperatives where property has been absentee managed and absentee owned over a long period of time. And tenants are not getting the services and so forth.

The efforts that the Boston Housing Partnership and non-profit organizations involved in that had to go through to acquire the 943 units of Granite Properties from the Federal Government were outrageous, to say the least. I think that other non-profit and cooperative entities that have tried to acquire buildings and properties from the Federal Government for the purposes of creating either non-profit owned or cooperatively owned housing have also been equally outrageous.

And I think that to the degree that there is an opportunity for community based, either cooperative or community development corporation, which is a similar thing, to own expiring use rental property, it would make more sense to do it that way than to continue sort of an absentee owner. The owner lives in California, the property is in Massachusetts. It's being managed by a series of management companies, annually changing, and there is no continuity.

The comment this morning about the landlord not even going to be around to collect the rent is extremely distressing to someone. I mean, our organization owns and manages some 500 units of housing. And you've got to be there to collect the rent, as well as you've got to be there to provide the services to the tenants.

Mr. APGAR. If I could comment——

Senator KERRY. Yeah, Bill?

Mr. APGAR. One of the things that strikes me is we tend to focus so much on profit and non-profit, as it relates to the development phase. But of course, the proof of the pudding in most of this housing is how well it's maintained and managed over its life course.

Much of our tax incentive system focused solely on the effort of getting private money and private talent in the development phase, and essentially ignored the long-term ownership interest. So the

knack is to try to figure out through these partnerships of how to get the private sector involved, where their expertise and development is good. But remind us that ultimately somebody has to be there 10, 15 or 20 years down the line to worry about the maintenance, operation and provision of affordable housing in the long-term.

And that's where the community-based groups may have a better long-term or appropriate long-term maintenance that could be built upon.

I just want to make one last comment. We talk a lot about the private role as it relates to assisted housing. One shouldn't forget, of course, that the most substantial private role in the provision of low-cost housing is the fact that the larger share of affordable units are not in the subsidy programs. They are not in risk of loss due to expiring use. They are in low-cost, non-subsidized, privately owned units that were perhaps built for a higher income occupancy and have deteriorated or whatever.

The simple fact of the matter is that two out of three poor people live in a non-subsidized unit. So the fact of the matter is that the vast majority of units that are affordable by folks, running for less than $200 or $300 a month, are not in the subsidized inventory but in the private inventory.

So when we're considering tax policy, we have to think about how tax policy relates to this non-subsidized inventory as well. To what extent are we encouraging turnover of non-subsidized units to community-based groups?

And in our focus on the expiring use issue, which is clearly important, clearly every dollar we preserve a unit of subsidized is a dollar well spent. But so too is a dollar spent preserving a privately owned unit, when we convert those units to public or non-profit ownership, we'll also be doing an important role in preserving housing.

And that's where the programs like the bill come in in which providing flexible seed money to provide non-profits and other local groups the capacity to be at their bidding. So when they do this getting ready to turn over, that they can be in there buying, not an expired use one, just a regular market deal that could work that unit into long-term occupancy. Those could be some very good buys too.

Senator KERRY. Yes, Doris?

Ms. BUNTE. Yes. If I could go back to a point that was made earlier, I'd like to offer some clarification on it. I think that it's important to note that the housing for the elderly and housing for young people—it is the case that that's a very important factor right now. But it doesn't mean that the need for housing for low-income households has gone away, witnessed by the 14,000 households on my waiting list.

So it may not be any goal, but it's very—that's number one.

Number two, I need to say that the homeownership for the young people, I think that's very important too. I'm a homeowner myself and I believe in it. But I must say to you that I believe that home ownership is an answer, not the answer. I believe that tenant management as it pertains to public housing in particular, is an

answer, not the answer. And I think there are still going to have to be the low-income subsidized housing.

And you are right, and I wanted to say this before. There is a piece of the bill that does have modernization funds in it. But the portion of the bill that speaks to being able to receive and administer HOP funds—the part that recognizes and specifically mentions CDC's and non-profits does not include public housing funds.

And if I may just follow up, we had 3,700 units of housing boarded up 5 years ago. And notwithstanding the Columbia Point/Harbor Point miracle, we have reduced 2,700 units to less than 1,200 units that are not on line right now. And we were able to put those units on line cheaper than any other way to bring housing that was boarded up back on line and make it available.

Senator KERRY. Let me ask Bill or Marvin to react. What is the feasibility of that? Should it be included?

Mr. APGAR. Well, one of the things I do think is important is that we have more housing needs than we have solutions available at the time. And so you never should cut anybody out. And we talked about community-based groups as being the leading edge of the new wave. But quite frankly, in many communities the public housing authorities are part of that new wave.

There are many States that don't have the pleasure of State agencies and community based groups and the like and in which the public housing authority is the agent for change in those communities. Especially areas where public housing authorities may in fact be the only housing body that has the capacity to receive monies and initiate housing activities.

And so while I think part of the problem that we face politically is that in some sense public housing has a bad name, Doris has mentioned that the best kept secret of the 1980's is to that point. And in other communities, of course, public communities isn't an important resource. It also has the advantage of being present in every Congressional district in the country, and so many Congressmen out there, especially in the rural jurisdictions, will understand the job that public housing is doing.

So that's the first issue. Public housing is clearly part of the solution.

Senator KERRY. In terms of private sector incentives, are there some that we should be including in the bill more specifically? We've got the home corporation, with its set of—we've got the low-income credit extension and so forth. Is there anything else we ought to be doing?

Mr. SIFLINGER. Well, there is one further element that's not in the bill that's essential. The 1987 Tax Act reduced the amount of tax exempt bonds that finance agencies can issue for low to moderate income housing. In Massachusetts and in many other States, we do not have sufficient volume cap to deal with the need for housing, just as we don't have enough tax credits allocated to Massachusetts and to many other States.

So I would recommend that we address those issues. We increase the bond value cap. And not only should we extend the tax credit provisions as recommended by Senator Mitchell, but it's absolutely essential that we increase the allocations of States like Massachusetts.

Mr. KARGMAN. Senator, as Marvin mentioned, the tax credits are such a critical piece of the pie because if you look at GBCD as a non-profit, I think they represent that perfect balance between totally private and the total non-profits. And I think that while pure non-profits that don't syndicate projects have a very strong role to play, the entire spectrum of Doris' point about the answer versus an answer, I think there is no answer.

But the fundamental point in the accounting is that there is a very thin market even now for tax credits. So that one other piece that I think we would like to sort of help your staff work with is how corporate accounting practices might be worked with, especially with regards to the production of affordable housing, so that corporations that might otherwise buy these tax-driven deals but can't at the moment could come in.

Let me give you just one quick illustration. We have a 176-unit development in Lawrence, which was—a bank was a lead marketer of two other banks. And they found that these banks had just received a directive from the FDIC that none of these bank holding companies could invest in any additional real estate. And we said, what about affordable housing? And they said no, no. No additional real estate. That was a fiat.

So here you have these banks, ten or fifteen banks, all of whom wanted to invest both for community reinvestment purposes and for good economic deals. And they were prevented by an FDIC directive from investing in the deals.

We find with regard to major industrial corporations that they too have limitations on their ability to invest. Since many of their tax incentives have been squashed, it's an attractive investment for them. But they too are prevented. And I think if we could address what it is that prevents them from buying these tax shelters, I think we'd go a long way towards finding——

Senator KERRY. Well, my suspicion is that even if we don't get a housing bill, we'll get an extension of the credit, one way or the other, no matter what. I think that's the most inviolative of all of the policies with respect to this, and it's the one that would meet with the least opposition.

So if we don't get a bill out—we probably won't this year. But I mean, out of committee in August and somewhere into the schedule, my suspicion is you're going to see that happen, no matter what.

Just a couple of more questions before we wrap up here. And if you're burning with a desire to answer something or say something that hasn't been said, now is the time because we're coming down to the last moments here.

On the increasing of the FHA ceiling to 95%, is this going to change moderate and middle income first time home buyer opportunities, do you believe? Does anybody want to—a banker or Marvin? What do you think about that?

Mr. POLLARD. Well, I think one of the difficulties, Senator, is that we're no longer in inflationary times, as you know. And whereas in the past banks and insurance agencies that insured the last 5 or 10 percent of the loan had looked to inflation to bail them out, they can't look that way anymore. And indeed, many of the mortgage

insurance companies have backed out of the business because of losses in that area. I think that's a problem.

I really do believe that low down payment mortgages are going to be extremely risky in the next couple of years and as we have indicated before, banks are under a lot of pressure on the bad loan side. And I have a feeling that this slow-down in the economy has not yet hit the residential mortgage portfolio. It certainly hasn't in the commercial real estate portfolio.

Senator KERRY. Do you think there is a danger to us in having the FHA up to what, 97 percent they can insure? Are we going to wind up with a new FSLIC problem?

Mr. POLLARD. That's entirely possible. And of course the other side of it too——

Senator KERRY. Here we've got your—go ahead. You were going to——

Mr. SIFLINGER. Well, I would disagree with that, although I recognize the danger. At MHFA we have underwritten close to 20,000 mortgages in the past 10 years. I don't think there have been 20 foreclosures in that period of time.

Most of our mortgages are in excess of 90 percent loan to value ratio. An overwhelming number are in that category. I think the key to the success that we had at MHFA—and I'm not taking any credit because a lot of this occurred before I got to MHFA. The key is good, solid underwriting. Know your customer, know their record, know their history. Invest the time in experienced professional staff to assure that your interests are protected.

I am very much in favor of——

Senator KERRY. The problem is—I mean, that's a good, a hell of a good principle. And it's one everybody ought to adhere to. And one would have thought that bankers would do that. We went ahead and raised to between $40,000 and $100,000 the amount of insurance. And now we're bailing out the banks who didn't do that.

Mr. SIFLINGER. Because there was no monitoring. There was no regulation. And if I recall correctly, frankly the Congress was warned at that time.

Senator KERRY. But do you lose—I agree. That's not the debate I'm looking for. But do you lose cost and efficiency? Do you raise your prices to too great a degree in the cost of all the accountability?

Mr. SIFLINGER. Well, there is always the danger if you fail to implement a program properly. The FHA program now, with a cost limit of $101,500, essentially does not work in Massachusetts. In the Boston area, where your average cost of housing is $182,000, to talk about an FHA program at $101,000 is frankly ridiculous. It won't work, and it can't work.

Senator KERRY. Marvin, what won't work and can't work?

Mr. SIFLINGER. An FHA program with the present purchase price limits of $101,000 just doesn't work. There are few FHA insured units in Massachusetts——

Senator KERRY. What's different from raising the limit and the insured amount? Those are two different things, aren't they?

Mr. SIFLINGER. No. If I understand the bill, one provision of the bill would raise purchase price limits to 95 percent of the area median purchase price——

Senator KERRY. Right.

Mr. SIFLINGER. So that would increase your purchase price limits to a more realistic level.

Senator KERRY. Correct. But then you've got the secondary piece, which is insuring 97 percent of that 95 percent cost of median house.

Mr. SIFLINGER. Presently FHA can insure up to 95 percent. The bill would increase it to 97 percent, and there is a very important provision in the bill that would require counseling, housing counseling to the proposed homeowner. I think that's a very important element. I think it's absolutely critical that that element be included.

Further, I think it's important that if this provision does pass, that it include a monitoring program to assure that the FHA delegated underwriting banks are managing the program properly. This has not happened in the past, and it's one of the reasons why you have the stories about Robin Hood and so on. Because HUD cut their monitoring staff, didn't have a program running loose out there similar to the S&L program, and there was no oversight. So certainly there can be abuse.

I use the MHFA single-family program, and I might say it's not just MHFA. Most of the housing finance agencies have an excellent default and foreclosure record because they invest in staff and in professionalism. And I think that's what HUD ought to do.

Mr. POLLARD. Marvin, I don't disagree with anything you're saying, except that for the last 10 years in Massachusetts, there has been no default rate because we've seen nothing but appreciation of properties. I can look at our own bank, and we haven't lost anything in the residential market for the last ten years.

Now, that doesn't mean that in the deflationary economy we won't see this turn around.

Mr. APGAR. But if you use the experience in Kentucky, for example, the State agency that also has an excellent default record, you realize that there is an important factor here. And that is the quality of the underwriting and the quality of the loan counselling.

Sure, it's hard in Massachusetts. But even in some of the slow growth regions of the country, there are programs that have taken a little bit more risk than you might think appropriate. But because of the careful management in underwriting and counseling, they have worked out.

I think the thing to remember is that ultimately what we're taking is risks on behalf of what is in fact one of the very most important financial steps people can take. And we should start off from the beginning prepared to take losses. That to take an appropriate level of risk in this area may be that we are prepared to take losses. Known losses and manageable losses. But that expenditure is worse than the benefit that would come from an extended home ownership down the line a little bit, a risk well worth taking, I would think.

Senator KERRY. The last question, if I may. What would be the effect of the State or local government or the CDC's taking equity positions in the long haul? Is that advisable or inadvisable?

Mr. JONES. Senator, when you say taking equity positions——

Senator KERRY. In the property.

Mr. JONES. Much the same way that the private sector—we do that now. In most of the developments that certainly our organization has been involved in, and most of my colleagues, we do take an equity position——

Senator KERRY. In new construction?

Mr. JONES. Yes. I mean, we contract the construction.

Senator KERRY. In the new construction, right?

Mr. JONES. Yes.

Senator KERRY. And you are taking an equity position in that new construction?

Mr. JONES. Yes.

Senator KERRY. What size?

Mr. JONES. Usually on loans we're doing them with MHFA, the loan to value is sometimes 60 percent. But we sometimes have 40 percent equity because that's what it takes to make the deal work for the constituency that we're trying to build for. Our equity principally comes from grants and soft second loans. Linkage Fund of the City of Boston, for example, would be a soft second loan. Grants from foundations and other things of that nature would be our equity in the development.

The benefit to that kind of equity is that non-profits over the long haul don't need to get a return on that equity in a way that a private investor, if they were putting 40 percent of the value of a project would need to get an annual rate of return that would approximate something that would make some sense. Congressman Kennedy mentioned 27 percent——

Senator KERRY. What are the down sides to it, if any?

Mr. JONES. I'm not sure that there is a down side. I think another positive side would be that at a point when all of the mortgages are paid off and there would be a normal incentive to roll that over and take a big profit at the end, the non-profit organization, because it is a community based organization, because it is an organization that is controlled through public elections at the community level—wouldn't have—and also its charter under the 501C3 statute—wouldn't allow it to do anything with—even if they did sell the property, the only thing they could do with the proceeds is invest in other affordable housing.

So there is no time that somebody could take the money and walk away from the community with that money. The 501C3 statute protects the community and those who would invest in affordable housing with CDC's from that.

One of the potential down side risks——

Senator KERRY. Rather than roll over, are there ways that it could subsidize the home ownership portion for——

Mr. JONES. As an example, we have a non-federally subsidized project. We developed a small, 17-unit project where about 50 percent of the proceeds were grant revenues. We are now looking at converting that project to a cooperative. We are starting to poll the tenants to see if they are interested in creating a cooperative. We are actually encouraging them to do that.

We're in a position to take most of our equity and basically make it a gift to the tenants as a way of keeping the costs to them at the same level it's been to us in terms of actual mortgage financing and to create a housing cooperative that will work. And we are op-

timistic that we will be able to do that at an average cost of about $50,000 a unit.

Senator KERRY. Well, let me—this is obviously a subject which each division of the bill could be subject to its own hearing and has been. And it's an ongoing process in Washington.

We've got some 12 hearings that have been scheduled overall on this, and countless numbers of people from around the country who have been taking part in those over the past week. Some will continue to as we go on.

I am personally very grateful to Senator Cranston and to Senator Riegle, as Chairman of the Full Banking Committee, for allowing us to have a field hearing on it. Needless to say, we have scratched the surface of some issues here. But on the other hand, that has its own way of highlighting what is important and staff and others can go on over the course of the next week to follow up on those things and to see to it that we go further than simply scratching the surface on them.

So I'm very appreciative to all of you. Mary and George and Sarah, thank you for setting the framework and starting us off by well——

Ms. YEATON. Thank you for allowing us, once again, to attend and be able to speak.

Senator KERRY. Allowing is sort of missing the word. We were delighted to have you. Without you, we wouldn't have the good sense of what we ought to be doing and how we ought to be doing it.

I'm particularly grateful to all of you for taking as much time as you have. I know it's a long morning, and it's a big commitment of time. And you get to do a lot of listening on some things that may not be as new or interesting as you would like. But it's helpful to the committee, and it will help to provide us with a solid record.

And certainly from my perspective, it's particularly helpful to me to be able to go back to Washington. And as we get into the committee meetings which we will have behind closed doors, as well as in the open, it gives me a better sense of what I need to fight for in terms of the State. And also what to think about in overall policy. And I'm appreciative.

I obviously would like to follow up with some of you, and I will as we go on from here and just talk to you privately about some of the things you have raised. But in the meantime, I do want to thank all of you for taking part in what I think has been a very good and profitable discussion.

On that note, this Subcommittee Field Hearing is adjourned. Thank you.

[Whereupon, the hearing concluded at 11:58 a.m.]

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